Continued from Page 15

But it was not only the greater availability of radio and TV commissions and the willingness of retail organisations to pay service fees that encouraged agencies to move more solidly into this area.

For one thing, retailers themselves have sought the assistance of agencies. "We have introduced retailers to TV," says South Pacific's Leo Prendergast, "and produced commercials for them. After a trial period, they look for something a little more ambitious. The movement to agencies is a logical progression in search of top-line professionalism."

Jim Belich, J Inglis Wright's chief executive, agrees. "Retailers are looking for professional help at a level which it is not possible to supply internally. Certainly those media which supply creative services are not sufficiently professional to meet all needs. Particularly, the retailer requires help in both TV and radio."

Pat Smith, Ilott's managing director, observes that "not only are retailers seeking to buy professionalism but the cost of running a house advertising department is prohibitive. Nor can a retail advertiser get the same independent attitude from a department that an agency gives it. The agency is always trying hard because it can only afford to be associated with success."

But agencies haven't just waited for the business to come and have been busy initiating their own moves into retail business. "Agencies are moving into retail because the bogey of escalating overheads must be overcome," Smith states. "Agencies can't continue to exist on a fixed income and so must look for previously unexploited sources of income." Ilott handles McKenzie's variety chain in print and Four Square and Wardells food stores in electronic media but have developed other retail accounts such as Guthrie Bowron and Hugh Wright's.

ROSS GEORGE . . . overseas trend.

"I believe that New Zealand is following an overseas trend," says Ross George, managing director of Carlton-Carruthers Du Chateau, "particularly evidenced in Australia and United Kingdom. In the UK, government and retail advertising have been the growth areas for agencies. As manufacturers keep funding retailers' advertising appropriations, more and more of what would have been national advertising monies is finding its way into the retail area. Private brands are still proliferating and major food retailers are starting to do a brand job on their private labels. So it is natural for agencies to look at the potential in this area. I was told in England recently that an agency which did not have one or two significant retailers in its portfolio was not keeping up."

JIM BELICH . . . retailers search for professionalism.

Carlton-Carruthers has handled the Hannahs footwear chain for many years and has recently acquired several accounts of a national or multiple store description.

"We don't differentiate between national and retail business," says Hylton Macklay, chief executive at Colenso Communications. "It's all advertising." Colenso probably handles more retail business than any other New Zealand agency with Woolworths, Smith, Brown, Maple, and a large share of the Challenge allocation with Wrightcars and Wrightson NMA and Kentucky Fried.

How does retail fit into the pattern of agency account handling customarily geared to national business?

"There are points where it can cause problems," Belich comments. For decades, JIW has handled all facets of the Hallenstein clothing chain account and over the last two years has increased its retail business. "Retail is now. Unless the agency is geared to it, it can take priority over agency functions."

"We have no separate department for retail," states George.

"It takes additional staff and you require retail orientated people, both in account handling and creative areas," is Smith's opinion.

Colenso holds a different viewpoint. "*While it's fashionable to say that retail advertising requires a special kind of expertise,*" says Macklay, "we think it's simply a matter of being brought back to the grass roots of advertising. Our creative and account groups handle both national and retail and relish the opportunity of tackling retail assignments. One reason is that you're going to know in short order how effective your advertising is. There is high accountability in retail advertising and it requires much more discipline. But you're in there close to the coal face. You not only see the action but you're part of it. We would only become concerned if our creative people began to get bored. It hasn't happened."

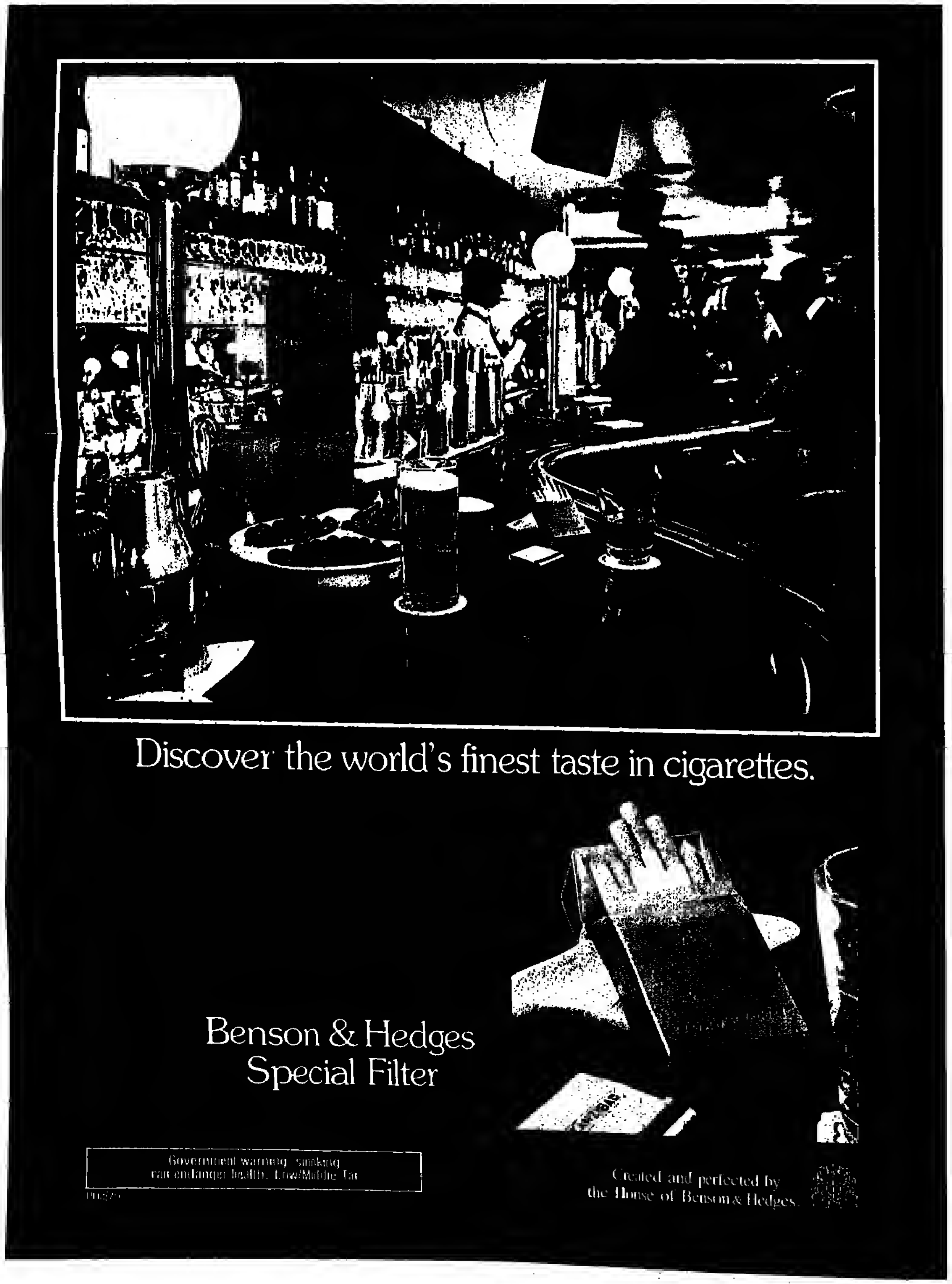
The move into retail is already proving an important revenue and profit source. No statistics are available but the purposeful stalking of the larger retail organisations by major agencies is an indication that retail fees and commissions are expected to make even larger contributions to agency returns in the future.

"Further development of retail business is not only logical but makes for better utilisation of existing resources," remarks Belich.

"Retail advertising is not as profitable as national but it gets there on sheer volume. It's firmly in the agency pattern now," says Smith.

"There is still further growth to be made in agency handled retail," asserts South Pacific's Prendergast, "and especially in the regional areas."

In the volatile advertising agency business nothing else seems so persistent as its cyclical nature. A half-century ago, important agencies such as Ilott and Goldberg had strong, well-staffed departments devoted solely to servicing retail clients all over the country.



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NATIONAL BUSINESS REVIEW

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Budget moves toward greater flexibility — through fiat

by Peter V O'Brien

CAUTION dominated the Budget presented last week. The political conservatism of Finance Minister Muldoon tempered the arguments of those who have called for sweeping changes to the country's economic structure. But he had part of a victory, because the Budget shows a move toward greater flexibility in economic management.

Flexibility is seen in the decision to free the dollar from the system which has previously set the value of our currency. It is seen in the changes to tax rates later this year, when the flow through effects of some Budget measures and earlier decisions will show up.

It is unfortunately, seen in the suggestion that Parliament will empower the Executive to reduce tax rates by regulation.

This point has already received unfavourable comment. Taxation has been the prerogative of Parliament since the great constitutional battles between the Crown and the Commons in Britain. While the government proposes to reduce taxes by regulation, rather than (so far) to increase them, the proposal is only a short step from finding pressing reasons (in the "national economic interest") to tune financial affairs by giving some powers to lift taxes in particular areas.

It matters not that the executive will declare it has no intention of taking that final step. Altering taxes in any direction by executive fiat is a dangerous precedent which goes to the core of a parliamentary system.

Exporting businesses will benefit from devaluation, and from the system of forward exchange cover. The latter will lessen the risk inherent in the previous method of obtaining forward cover. Extension to a period of one year brings more certainty into exporting, while underpinning the flexible exchange rate policy.

Some observers were surprised at the apparent inaction on overseas travel expenditure, but they overlooked the effects of devaluation. If travel funds, excluding fares, cost 5 per cent more, (with further moves likely) there will be an immediate inhibition on travel spending. Flexibility makes more sense than complicated controls, or premiums, which lead inevitably to a black market. The officials won that round.

Details of export incentives were still awaited when NBR went to press. Comments from industrialists suggest they will be favourable, particularly as *the base year is abolished*.

A little publicised section, relating to insurance, should benefit locally domiciled insurance companies, while conserving overseas exchange. The Government's decision to examine present trends in reinsurance (where the risks are offloaded outside the country) and to retain both insurance and reinsurance in New Zealand could boost local companies.

Caution is apparent in the Budget's moves toward redirecting internal resources from consumption to export oriented production.

The underlying philosophy in the area of farming and manufactured exports follows the views of those economists who believe that concessions and subsidies should be related to outputs, rather than to the inputs. Thus we have reduction of the fertiliser subsidy, adjusted minimum support prices, and export incentives based on overseas exchange earned, rather than the total value of inputs (including imported inputs).

The changes went part of the way toward full acceptance of that philosophy. More may be done after the effects of the cautious approach have been assessed.

The Budget had its omissions. The most notable was the lack of a coherent statement of goals and directions. Two sections come close, but they are vague:

"What this Budget seeks to do is to create the right signals for the private sector to function more effectively having regard to national objectives. Having done this the Government looks to all New Zealanders to respond by working together in the interests of the nation as a whole. I believe that tonight's Budget sets the scene and opens up the economy for the stable advance and the export-oriented restructuring which should now be our common goal".

"Signals" is a Treasury word, which officials have used in discussions with the private sector.

"Although we have made major inroads into the unprecedented external deficit that existed when we took office, there is still some distance to go. Going that extra distance will require further changes in the economy and this Budget is designed to establish the right environment for these changes to take place as quickly as is consistent with the shorter-term restraints."

The Budget's other failure is the omission of an energy policy, apart from piecemeal moves. *The magnitude of optional investments is paralysing officials, with the fear of the economic consequences if policy turns out to be incorrect as the investment is put into place.*

Finally, all Muldoonian Budgets contain their humour. Last year we had tax rebates for school children who could earn up to $549 a year without paying tax.

This year, it is the "Investment Unit" to be established within Trade and Industry — "which will be responsible for guiding potential investors through the procedures required by Government departments and agencies". Officials won that round, but a more inappropriate place (in spite of the "positive approach" suggested) would be hard to imagine.

NBR suggested earlier in the year that an independent development corporation is needed. That view is unaltered, because public servants, through the nature of their particular training and *outlook, are the wrong people to go swimming in the entrepreneurial pond.*

ECONOMICS Correspondent examines the Budget forecast for a $1 billion deficit. — Page 3.

Muldoon offers party series of half measures

by Colin James

THE political question the Budget poses, is how far the Government will take its new attitude to the exchange rate?

Supporters of the "more market" economy — of whom there are many in the National Party and among farmers — argue that the dollar should be devalued to the point where exporters' earnings are sufficient to make them profitable without any subsidies or allowances.

A halfway-house suggestion, made by "more market" enthusiast Ian McLean, is to switch from input subsidies for farmers to reliance on the supplementary minimum price.

The theory behind this is that eventually the exchange rate would be reduced to the level that would allow an easy transition from reliance on the supplementary minimum to reliance on overseas earnings.

The Budget seems to have gone some way toward the half-way-house. Input subsidies have been reduced and the supplementary minimum price raised (as predicted by NBR on June 13).

Taken together with the 5 per cent devaluation and last year's primary produce price increases, the Government is banking on not having to pay out much this year to maintain the supplementary minimums.

The real crunch is likely to come next year, if prices begin to fall. The Government will be faced with a decision whether to lower the minimums, devalue, or subsidise farmers' incomes from tax.

I understand official estimates of how far the dollar was overvalued before the Budget — that is, how much higher the exchange rate was than a rate which would sustain exporters without subsidies and allowances — were about 27.5 per cent.

So, if the Government is moving toward an exchange-rate-based system, the dollar will need over time to be devalued by more than 20 per cent yet — more if the terms of trade turn against New Zealand.

The political issue is that the Budget has not made clear the Government's intention. The 5 per cent devaluation was about the smallest it could get away with in the face of internal and external demands.

It is doubtful if this is enough to call off the party free enterprisers, the more so since the whole tone of the rest of the Budget was of continued detailed Government management of the economy.

The Government may have gone far enough to mollify some of its critics in the party. But it is probably not enough to satisfy most of them.

They want a bold plan of innovation. Instead they have been given a series of half-measures. The party dominion conference next month still promises to be an interesting affair.

Inside:

BELINDA Gillespie finds the LPG network shaping up with Government help — but CNG distribution is burdened by the lack of an infrastructure. Page 9.

THERE may be a place for private enterprise accountants in future Government departmental financial management. Colin James reports — Page 11.

CABINET is a secretive, powerful body, dominated by the Prime Minister and consisting of a few able men and many whose absence of talent must be hidden. MP Marilyn Waring argues for a Cabinet more representative of the people — Page 21.

GOVERNMENT is making a major upgrade of one of its computer systems. Stephen Bell asks will it be the first of several this year? — Page 24

TAXATION is "legalised banditry" like being robbed at the same spot each week. So when you've had enough, *just go by a different route. Rae Mazengarb previews next month's Offshore Tax Conference and asks: will it mark the beginning of a tax revolt here?* — Pages 26-27.

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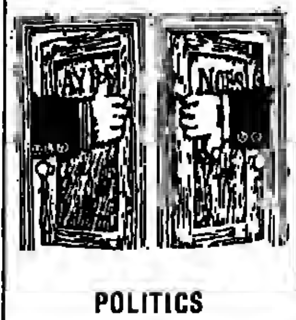
Beware the woman with the furled umbrella

by Colin James



POLITICS

A POLITICAL organisation which debates what its function is, is either in the wrong game or has some growing up to do.

The established political parties never have to think about what they are there for. They are in business to get members of their party elected to Parliament — the more the better.

They may argue, as the National Party is doing this year, about what the MPs should do once in Parliament. But that is a subsidiary consideration.

Similarly, the single-issue political lobbies, such as the Society for the Protection of the Unborn Child, or Halt All Racist Tours, or the Native Forests Action Council have no doubt what they are on about.

It is to have as many conceptions carried through to birth as possible, or to stop all sports contact with white South Africa until it turns into black Azania or to get the ravaging hordes of axemen to "spare that tree" if it happens to be New Zealand-bred.

No reminder is needed of the single-minded political pursuit of sectional interests by the economic lobbies, such as the manufacturers, importers, or Canterbury walnut growers.

The identity problem seems to occur when an organisation falls between the two roles — the pursuit of a single political aim or a frontal bid for institutional power.

Thus, in the early Labour movement, arguments raged back and forth on the relative merits of revolution and redistribution.

Splits and resplits plagued the movement, sometimes compounded by regional variations. Attempts at unification kept foundering on the failure to agree on objectives and methods until Massey pushed them into a disciplined reformist parliamentary alliance by smashing the militant unions.

The Social Credit Political League had similar problems during its first 20 years. It was never quite sure whether all it wanted to do was implement Douglas credit (or son of Douglas credit or deviate son of Douglas credit) or whether it wanted to be the Government.

This underlay the wrangles in the 1960s between those who wanted to centralise the organisation and those who wanted maximum local autonomy.

Then after John O'Brien's rocky reign in the early 1970s, Bruce Beetham and George Bryant converted the traumatised remnants into a professional power-seeking outfit with political aims that go far beyond social credit.

Values has not got there yet. Does it really want to win seats in Parliament and on local authorities? Or does it want to be a super pressure group, unevenly active at national and local level on social and environmental issues?

The first implies centralisation and professionalism, the development of the political tunnel vision of the other parties.

The second probably would lead Values to, in Tom Scott's apt phrase, "biodegrade of its own accord", party members being gradually reabsorbed over the long-term into the organisations Values works with.

Which brings me to the Women's Electoral Lobby.

It is not a single-issue lobby like Spuc, nor an economic lobby like the manufacturers.

Its name and its aim of equal opportunity for women in political, social, economic and legal life, taken together with its past canvassing for parliamentary candidates, backing of local authority candidates in some areas and issue last year of a manifesto, suggest an analogy with political parties, not in their maturity, but in their formative stages.

Perhaps a parallel exists with the working men's political associations and trades councils' parliamentary committees of the 1880s — tentative forerunners of the 1916 Labour Party.

If the analogy is correct, then WEL's conference in Masterton 10 days ago is instructive.

The first session dealt with "coping" — how well women perform the wife and mother role. Members of Hecate, a Wellington women's health collective, suggested that failure to cope should be seen not in terms of sickness, but of a social structure designed to keep women in their place.

At the workshop I sat in on, the discussion quickly became a series of anecdotes, based on the word "I".

Quotes: "Once I used to fit in with where other people were going. Now I have ideas of where I want to go and I only have to worry about that."

"Women are so much more interesting than men. Men cannot communicate on the same level as we can."

"I think we have got to start having more meaningful discussions with men."

The next session was given over to a series of speeches on: unions, alcoholism among women, child health, battered wives and marital sex therapy.

After lunch they packed the hall to hear founder-member Marilyn Waring, who knows about the realities of politics, give one of the best brief guides to political activism I have ever heard.

She pinpointed the pressure points of the system at all levels and told them how best to exploit them. And, she said, if they were serious about getting women into Parliament, they should start joining the major parties.

Then Marilyn went off back to Wellington and the drastically-thinned ranks of delegates mulled for a couple of hours over "Where WEL is at. What has it done? What should it do?"

A Nelson member of the panel leading the "Where WEL is at" session, pinpointed what seems to me the essential question facing the organisation: "Were we (in Nelson) a political pressure group or a general women's group?"

The Nelson answer was the first. Under the initial impetus of WEL members a broader-based Women in Nelson group has been formed and "WEL is now the political arm of the group".

I take that to mean that the coping-type and sex therapy sessions are run nowadays by some other part of the group.

Tied in with that, was a centralist-decentralist, discipline-diversity argument.

The editor of WEL's national newsletter complained that "we have so little control over the local branches that we are running the danger of having our name abused".

Cases in point: one branch no longer existed, but someone in the area was still contributing a WEL article once a month to the local paper.

The Northland branch had recently made submissions on a a parliamentary bill without telling anybody else.

There was a demand that WEL incorporate and set up a formal structure. There was another suggestion that WEL should nationally select two or three issues and all branches should concentrate on them for a year.

"If we do that," said chairman Donna Glendining, Wairarapa rural activist, "we may stop a lot of good things being done."

True, and delegates from various branches detailed a number of good things that had been done at local level. No doubt this is partly because of the wide diversity of membership: tailored suits and slingback shoes mingled with jeans at the conference.

Donna Glendining . . . 'stop good things'.

So branch autonomy was preserved, even though the final session on the morning of the second day (for which I must rely on second hand reports) agreed on four topics for activity — abortion, unemployment, human rights and local elections — and provided a structure for coordinating that activity.

Branches will still be able to decide how much effort they will put into these activities and will be free to do other things.

Echoes of current Values Party debates; echoes of centralist decentralist Social Credit debates of the 1960s, echoes of the confusion of objectives of the early working class movement.

Maybe narrowing the sights is part of the maturing process of political movements. If so, it will be interesting to watch WEL's development.

"Are we an umbrella group or a political organisation?" muttered one woman as the coping session broke up.

Will WEL furl the umbrella and sharpen the point?

Early in a political movement's development local activity like influencing tavern siting decisions (an impressive notorious WEL success) seems to be important, both to give members experience in handling the system and a sense of achievement (and maybe to hold together a diverse, entirely voluntary, membership).

It is therefore in character for the still-young WEL to devote a lot of its energies to that sort of activity, just as the Values Party does.

But, if past development of political movements is anything to go by — and if my assumption that WEL is a political, rather than a social, movement is correct — I would expect WEL gradually to concentrate its activities on ensuring women or men sympathetic to women hold the institutional political decision-making positions — seats in Parliament, on local authorities and statutory boards.

Just about any activity affecting the condition of women can be termed politics with a small "p". Politics with a big "p" means control of national and local political decision-making.

New Zealand needs a disciplined, tough-minded organisation working for women within the political system. It doesn't have to be a political party, but it needs to think like one.

Fancy footwork government faces fiscal facts

Economics Correspondent

THE ECONOMY

IN A surprise move, the 1979 Budget called for increased Government spending and some tax cuts.

It is usual for the Government to balance the books after expansionary election year spending.

But the 1979 Budget forecast a deficit of nearly $1100 million next year.

The deficit will probably turn out to be considerably higher.

During the first six months of 1979, economic conditions were more buoyant than they had been for some time. The economy was poised on a tightrope between deepening recession and slight growth.

A restrictive Budget would have added to the impetus of other economic mechanisms, pushing the economy into recession again.

Last week's Budget faced up to this reality. The Prime Minister said: "Our most recent information indicates that the economy will be somewhat less buoyant later in the year. While the immediate situation requires further restraint, it will become necessary to adopt a rather more expansionary fiscal stance later this year.

"This will offset the contractionary effect on real disposable incomes (incomes adjusted for prices and taxes) which would otherwise be caused by the combination of monetary restraint, rising prices, and the effect of inflation on the tax system."

In fact, the effects of inflation on the tax system are significant.

Despite tax cuts taking effect from October 1979 and further cuts proposed from October this year, the Government expects to collect nearly 25 per cent more in direct tax revenue this year than it did last year.

From October this year, the rate of tax on taxable income between $4500 and $10,000 a year has been reduced from 38 to 35 per cent. Those with taxable incomes between $10,000 and $11,000 will pay tax at a rate reduced from 48 per cent to 35 per cent.

Families will benefit from new income-tax measures designed to raise the income level at which the rebates for young families and single income families begin to abate.

Even so, Government expects to collect nearly $1000 million more in income tax revenue this year than it did last year. In March year 1979 income tax receipts totalled $3655 million. This year they are expected to top $4560 million.

The Budget also forecasts a large increase in the Government's indirect tax receipts. Sales taxes are expected to net the Government nearly 47 per cent more this year, increasing from $450 million in March year 1979 to $620 million this year.

About $50 million of the increase will be collected from a new sales tax on beer of 30 per cent and a 15 per cent tax on cigarettes and other tobacco products introduced from midnight on June 21.

Other indirect tax receipts are expected to grow at a more moderate rate.

Long-term tariff rates recently set by the Tariff Review Committee will not have a great effect on the level of customs duties. Customs receipts will continue to grow at a rate below 10 per cent. Beer duty receipts are expected to increase only slightly. Receipts from the energy resources levy and highways tax are expected to fall.

The property speculation tax and the foreign travel tax have been abolished. The foreign travel tax has been replaced with a "departure tax" on all tickets supplied for international travel which is not likely to collect more than $12 million.

Collections from estate and gift duty will fall slightly from around $53 million to $40 million this year because of a higher exemption level applying to persons dying after Budget night.

The exemption level of all estates, on which duty is payable, will be raised from $25,000 to $250,000 in stages over the next four years.

The first stage, taking effect immediately, raises the level at which duty begins to $100,000.

The remaining stages will raise the level to $150,000 on April 1 1980 to $200,000 on April 1 1981 and to $250,000 the following year.

Large increases in revenue will allow the Government flexibility to increase expenditure this year while still reducing the deficit slightly.

The Government has budgeted for growth of nearly 12 per cent in its spending from $6850 million in 1978-79 to nearly $7700 million in 1979-80.

Expenditure on social services is budgeted to increase by nearly 17 per cent.

It is difficult to tell from the Budget whether growth in other areas will be as high because $400 million has been set aside in the supplementary estimates and no indication is given of how that will be distributed among the various departmental appropriation votes.

It is likely that actual spending in areas such as education, health, administration and development of industry will be much greater than budgeted once the appropriations are adjusted to reflect public servant salary and wage increases to be decided later this year.

The individual votes accurately reflect the Government's intention to cut back on capital spending by the public sector.

This should please those interested in seeing the size of the public sector reduced in the long-term. But the move may prove premature if business confidence in the private sector remains despondent and if reluctance to start up new investment projects continues.

By planning to keep Government spending at about the same level in real terms as last year, the Government is finally responding to economic conditions.

There is a risk that inflation will increase, but if the real economic growth rate remains positive, this may not be so bad.

Exchange rates

As at June 22, 1979.
$NZ is worth:

Australia	.9447	India	7.8095
Britain	.4667	Italy	833.83
Canada	1.1772	Malaysia	2.1762
Japan	216.62	Netherlands	2.0239
West Germany	1.8452	New Caledonia and Tahiti	78.02
USA	1.0002	Norway	5.0714
Austria	13.60	Pakistan	9.7107
Belgium	29.71	Portugal	48.81
China	1.5428	Singapore	2.1749
Denmark	5.3069	South Africa	.8336
France	4.2091	Spain	65.50
Greece	36.52	Sweden	4.2079
Hong Kong	5.0014	Switzerland	1.6402

EDITORIAL

THE Prime Minister has long been an unabashed admirer of Britain's Margaret Thatcher, but admiration hasn't led automatically to emulation. Thus he didn't borrow her Conservative Government's Budget formula in planning New Zealand's economic strategem for the next year — or till the next demand for fancy footwork.

Britain's formula was stronger incentives to work hard, by lowering income taxes (to offset sales taxes); reduction of the state's role; cuts in public spending; and encouraging responsible wage bargaining.

Muldoon has tinkered with the tax structure, maintained the state's role generally, increased public spending, and set the scene for industrial problems when the inevitable inflationary pressures (a CPI figure of 17 per cent this year, according to some economists) result in bigger wage demands and union unrest.

Any suggestion of tax reform is nothing more than sleight of hand. The Government will collect nearly $1000million more in income tax than last year, a total of $4580 million (an increase of 25 per cent). This is by far the biggest component of the direct taxation of $4619 million which the Government plans to take.

Indirect taxation, on the other hand, is being increased by just under 20 per cent to $1331 million. Sales tax (up 40 per cent on last year) accounts for the bulk of the increase, but as a proportion of total tax, it is less than last year.

Tax reformists like Lewis Ross have spent more than a decade calling for taxation to be spread over the widest possible base to minimise the rate necessary to yield the desired level of revenue. Since the committee he chaired (the Ross Committee) reported on the tax issue back in 1966, about 70 per cent of its recommendations have been implemented by successive governments. But the nub of the report — a fundamental shift in the incidence of taxation from taxes on incomes to taxes on consumer spending — has yet to be embraced by Government decision-makers.

The Planning Council has lent its voice to the reformist cause. "The council believes that tax reform could assist in removing much of the present disincentive to initiative and effort, while at the same time lessening pressures for higher gross incomes," it reported last year. It called for urgent progress on tax reform to be undertaken throughout the 1978-1983 planning period.

The reform lobby sees a number of benefits in shifting from income tax to taxes on expenditure: a boost to growth, a halt to the disenchantment which is driving skilled and enterprising people overseas; and less pressure on unions to be involved in continual rounds of demands for higher (and inflationary) wages.

Last year, the Budget included a package of personal tax cuts. But that was election year — and no sooner had the election result become apparent, according to a report at the time in the New Zealand Herald, "than Treasury officials are understood to have suggested that the Government have them report on the increasing problems of the internal deficit..."

And so we were landed with a hefty bundle of sales taxes six weeks before Budget night. By then, the phenomenon known as fiscal drag had eroded the benefits of last year's tax cuts.

But whatever the need for comprehensive overhaul in the tax system, this wasn't the year for it. Muldoon declared eight years ago — just before the election of the Kirk Government — that he had "spent it all". He and his Government are still spending — and to spend, have been borrowing heavily. This year's Budget therefore, was prepared with Government thinking strongly influenced by the awesome internal deficit of almost $1500 million it has recorded in the last financial year.

The Government therefore, has chosen to reap the optimum in taxes. The whirlwind will be reaped later.

Bob Edlin

ROAD Services is buying more Japanese coaches to replace its British-built Bedfords.

The order was news to the Australian Financial Review which the other day reported that 20 new Hino coaches were being added to the Road Services fleet.

But it certainly was not the latest scoop as far as Road Services are concerned.

"They have just about been worn out by now," a spokesman said.

The last coach in the 20-order batch took to the road in March to clock up a yearly average of 100,000 kilometres.

Seven more are being built in Dunedin and a contract for another 15 is about to be signed. That is news.

●

DARING to compete or just rocking the boat in one of this country's licensed industries, just doesn't pay off.

Mahzar Krasniqi, director of the Middle East Export Company, was first in to establish New Zealand trading contact with the new Iranian regime. He came away with an order for 10,000 tonnes of halal killed lamb worth $14 million.

But the Meat Exporters Council would not supply him with product . . . at any price.

So Krasniqi took his case to Government, the Meat Board and the press. He also went public on his ideas of how New Zealand should develop its own halal butchery to compete in Moslem markets.

Since the visit to New Zealand by the Iranian delegation, Krasniqi said his company had been completely frozen out of the meat trade. Licensed meat companies will not even supply him with edible offal — for which he has orders.

To export New Zealand meat, you need more than money and a market, one also needs a meat exporter's licence.

Krasniqi has applied for a licence. But to no avail.

He has had to deal in the past through licensed exporters and obtained a commission for selling for them rather than being able to sell in his own right.

Now, he said, the licensed exporters seem to have decided to shut him out of this business as well.

That old adage about the turtle only making progress when it sticks its neck out, apparently does not hold in the land of the relentless clobbering machine.

Krasniqi's case is not isolated. Last year, the Export-Import Corporation was turned down for a meat exporter's licence by the Meat Board. The corporation had one order for more than 6000 tonnes of meat (see NBR May 31, 1978).

●

THE Export Institute is moving into the cheap travel field with an arrangement between themselves and two tour wholesalers.

Export Institute director Ross- Southcombe said the Institute had reached agreement with Thomas Cook Pty Ltd and United Travel Services to operate an executive travel club for its members.

"The Institute's 2000 members would constitute the biggest single group of business travellers in New Zealand as well as providing a significant amount of airfreight," Southcombe said.

"I hope, by providing this service to members we can cut the cost of air travel, hotels, and rental car hire," he said.

The club would also provide information on fare structures, travel advice, visa information, background on local customs in export markets, dates and information on trade fairs, etc.

The club's fare reductions had not yet been determined and would depend on the volume of business, Southcombe said.

"When we know the volume of business we can negotiate the benefits," he said.

Thomas Cook, a subsidiary of Midland Bank, had five offices in this country. United Travel Services was a consortium of 45 travel companies with 90 offices throughout New Zealand, he said.

And which airline would get the club's business? NBR asked. "All the airlines are members of the Institute," Southcombe said. "But we have a basic loyalty to our national carrier.

"No exclusive arrangements have been entered into as yet," he said.

United Travel Services is linked with Air New Zealand in another tour wholesaling company; Gitaway Holidays Ltd.

Gitaway is owned one third each by United Travel Services, Atlantic and Pacific Travel International Ltd, and Air New Zealand Associated Companies (a wholly owned subsidiary of Air New Zealand).

Gitaway's chairman is Air New Zealand executive, Allan Waston, according to Air New Zealand's director of marketing, Norm Searle who is also a director of Gitaway. Gitaway, while it uses other airlines, has a preference for Air New Zealand.

●

IF WE were to send a team of All Blacks — young and superbly fit — travelling 39,000 kilometres on a 10-day tour and schedule them to play three test matches in that time, there would be an outcry from rugby supporters that would rend the heavens. And if we then asked them to play a major engagement within four days of their return, heads would roll.

Yet that is exactly what we have asked our Prime Minister to do (or he has asked himself) in a trip that took in top level conferences in Washington, London and Paris within the same ten day timespan. Within four days of his return, he was due to present the Budget.

Whether self-inflicted or not, this frenetic pace is medically crazy. According to informed opinion, on the basis of requiring a day's recovery for every hour of time zone difference, Rob Muldoon would have been, on Budget day, eight days short of recovery from jet lag.

It is not only an inhuman procedure, but at a time of critical uncertainties when we need our politicians at peak all of the time, an extremely foolish one.

●

BCNZ's chairman Ian Cross must have been grateful to the Associate Minister of Finance, Derek Quigley, for his contribution to the Parliamentary debate on broadcasting's finances.

Quigley has provided the needed answers — at least to his satisfaction. He said that on the revenue side there was great potential for more advertising, noting that 35.7 per cent of available advertising time on TV1, 40 per cent on TV2 and 45 per cent on commercial radio was unused.

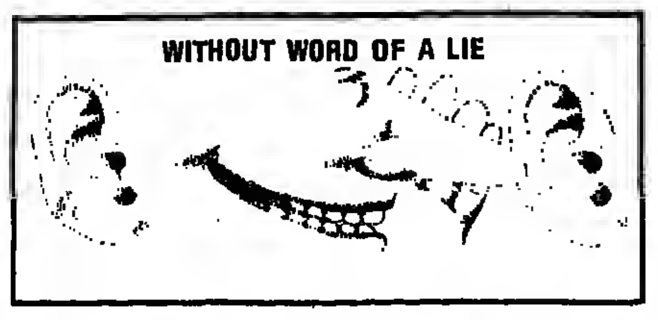
Equally, he said that our suburban train and bus services have great potential for improved financial return because on off-peak services there is plenty of room for more passengers. The regrettable fact is that, perversely, people don't want to travel at these times.

Similarly, there are off-peak periods when radio or television attracts scarcely any listeners or viewers. And who wants scarcely any listeners or viewers? Well, scarcely any advertisers.

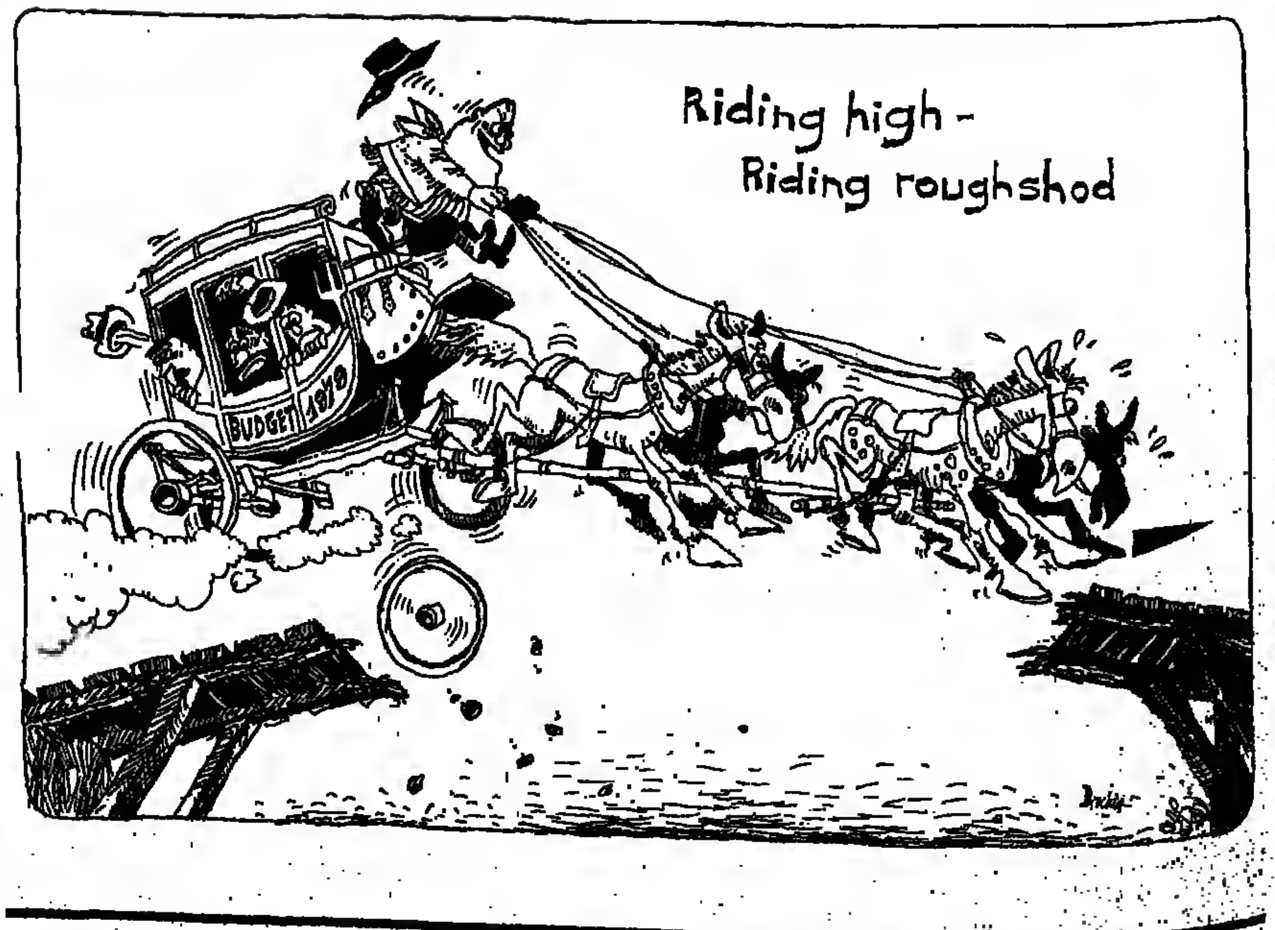
On the other hand, spot times to peak time-bands could sometimes be sold many times over, even though rates can be seven times greater than off-peak. The cheapest times are the hardest to sell. That 45 per cent of potential advertising is unsold, doesn't mean anything like 45 per cent of sales dollar volume unsold.

Still, we hear the message has got across. On the walls of the advertising offices of TV1, TV2 and Radio New Zealand they are clearing space to hang a brand new message. It's called "Quigley's Law" and reads "Yesterday's unsold time is dear at any rate".

WITHOUT WORD OF A LIE



BROCKIE'S VIEW



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●

AGRICULTURE under-secretary Rob Talbot is pleasantly surprising those who disparagingly nicknamed him the "Minister of Small Seeds".

His enthusiasm is breezing through the corridors of power refreshing those who have come to regard political dogma as the norm.

Pigs, chooks, bees, spuds are in his portfolio — the "other" aspects of farming New Zealand style.

Walking in Jim Bolger's gumboots is not always easy and Talbot has put his foot in the farmyard dung heap more than once.

But Talbot practices what he and the caucus agricultural committee preaches as some regulation seeking producer boards and statutory authorities have found to their dismay.

The Poultry Board and Egg Marketing Authority have clearly been told that regulations only batter producers into a claustrophobic cage from which it is difficult to escape. The Pork Industry has been told and probably will be told again at its annual conference, not fall into the same trap.

And though his message is not what every controlling body wants to hear, Talbot is making an impact where Bolger was less impressive.

Bolger has a quick grasp of problems, a fact that was appreciated in the farming community. But Bolger did not always follow through, convincing the bureaucrats that action was needed.

Talbot does not give up so easily. His quick support for South Canterbury grain farmers who lost their harvest was appreciated.

His speaking schedule, as was Bolger's, is long and to some, tedious.

From the Central Plains Irrigation Committee in Darfield to the Agricultural Chemicals and Animal Remedies Manufacturers' Federation annual conference, Talbot stumps around the country delivering carefully researched speeches, opening the gate on new fields; rabbit farming, opossum rearing and biomass cropping for energy.

Talbot is losing little in the farming community at large from his under secretary status, though a direct voice in Cabinet would clearly be preferred.

Bolger was an under secretary for 18 months and suffered the same complaint, before getting his feet under the Cabinet table as an Associate Minister of Agriculture.

●

JUSTICE Minister, Jim McLay explained to Parliament how simple it was to understand the voting instructions on ballot papers.

Rejecting Labour Party claims that the instructions effectively apply a literacy bar, McLay argued in the House debate that "the instructions are quite clear".

"Strike out the names of all candidates except the one you don't — (pause) ... er ... the one you wish to vote for."

As Labour's David Lange said: "Condemned out of his own mouth".

●

APART from Army, Navy and merchant navy personnel, the use of the word "captain" is basically a courtesy title normally applied to airline pilots.

Pilots usually become plain "misters" once they give up airline flying.

Thus it is interesting to note that the daily press constantly refers to the Director of Civil Aviation as "captain" — a quarter of a century after he left the employ of the British Overseas Airways Corporation for a ground-based occupation.

The use of the courtesy title of "captain" years after it should have been forsaken recalls the former English RAF officer who once served in the Ministry of Transport under the then departmental head, Ray Poloschek.

The officer wrote a memo to the appropriate official asking for permission to undertake certain action and signing it: "—, Wing Commander."

The official returned the memo noted: "Authorised, —, sergeant."

In high dudgeon, the wing commander minuted the memo on to the Secretary of Transport, this: "Is this impertinent? — Wing Commander."

Back came the reply: "No R J Poloschek, pilot officer."

●

DURING last year's Parliamentary session, politicians were apt to get excited about Soviet dissidents and the USSR's strongarm policies which prevented the emigration of Jews who were anxious to settle their families this side of the Iron Curtain. The Government even passed a resolution in the House condemning the Russians for their stance.

But by last week, the Government had changed its tune. It was condemning the Vietnamese because they were encouraging the departure of disgruntled citizens — hordes of them, who were setting sail in anything down to the kitchen sink.

So the Russians are to be rebuked for keeping unhappy citizens at home, and the Vietnamese are to be rebuked for kicking them out.

Perhaps the volte face can be explained in terms of what should be a growing Government awareness that New Zealand itself is generating refugee problems for the world; and someone somewhere in the administration probably has tumbled to the fact that if we are to try to stop Kiwis from fleeing the coop, then we must expect other countries to believe likewise.

A refugee problem? you ask.

Well, think of it this way. Vietnam has a population of some 48 million. New Zealand has a population of just 3 million.

So the 20,000 or so New Zealanders who have opted to quit Godzone to settle elsewhere equates with the 320,000 Vietnamese whose migratory urges have led to their being branded refugees from tyranny.

The big difference is that the Australian Government hasn't yet threatened to shoot them as they flock ashore.

●

INTERNATIONAL bankers' criticism of New Zealand's economic management is quite widespread. One of our staffers talking with the head of a major United Kingdom bank operating out of Singapore was told recently that bankers could not understand where the New Zealand Government was getting its fiscal advice.

"For instance, we were most surprised when the National Government renegotiated many of its international loans after coming to power in 1975," he said.

"Your Government made great play of the fact that the loans were renegotiated at lower interest rates but we were all surprised that they took the loans out in such hard currencies. It has now become painfully obvious that it wasn't the interest rates that counted but the currencies in which the loans were taken out.

"Just about any major banking organisation could have told your Government what was going to happen to some of these currencies even then," he said.

There was no doubt in the banker's mind that New Zealand's economy was performing badly and while many of the problems were created by factors outside the Government's control, there is a growing international scepticism about the standard of the present Government's managerial ability.

"Is it the Reserve Bank or Treasury that's responsible for the bad advice?" he asked. We'd like to know who it is too.

●

THE United States Federal Aviation Authority cannot stop Air New Zealand flying DC10s into Los Angeles without resorting to the power of the courts.

Technically, any aircraft certified by New Zealand's Civil Aviation Authority and meeting certain minimum standards must be allowed to operate across the Pacific by the Americans.

But the argument, though studied by legal eagles in Civil Aviation and in Air New Zealand, is unlikely to be put to the test.

The Federal Aviation Authority would almost certainly try to enforce its decision to ground the DC10s, following the Chicago disaster which killed 274 people, through the courts by a temporary injunction.

And a final decision by the American courts would probably arrive long after the FAA had lifted its ban.

But European airlines, including Sir Freddie Laker's company whose Skytrain to New York and Los Angeles has been badly hit by the grounding, are considering testing the FAA.

The Chicago convention of the International Civil Aviation Organisation agreed to a clause allowing any recognised civil aviation authority to certify the airworthiness of an aircraft for international operations subject to certain minimum standards.

A similar clause is included in the bilateral aviation agreement between the United States and New Zealand.

●

NOW that the Federation of Labour has taken the plunge and elected SUP member Ken Douglas as its secretary — with the crucial votes coming from the clerical workers whose secretary John Slater reached the executive in May with leftist support — attention focuses on who will replace Douglas on the executive.

President Jim Knox was due to decide on Monday of this week when nominations would close and the postal ballot be held.

The question on everybody's lips is whether the left-leaning mood, which favoured Ken Douglas, will carry through to this election.

Top of the unsuccessful candidates for the executive in May was Pat Kelly, once a member of the Chinese-leaning Communist Party and now a Labour Party stalwart.

Kelly's mana in the movement is high. But will the right let another prize go?

The executive vacancy won't be the end of the elections. The position of assistant secretary, created last year, is still open.

Knox says he will wait until the new team gets settled in before he gets on to that problem. He will probably be calling for nominations for that position around the end of the year and it will be the subject of a postal ballot, too.

●

AIR New Zealand's top executives are hard at work with their pruning shears on the 19th floor of the Queen Street headquarters in Auckland.

Capital expenditure is being severely cut in the wake of the DC10 grounding, which cost the airline dearly.

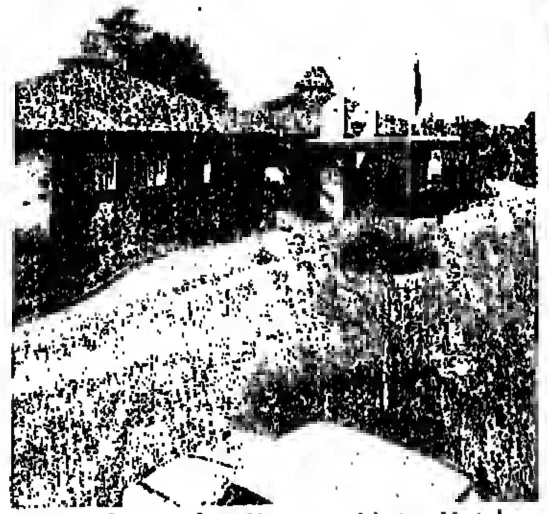
The airline lost $315,000 every day for more than two weeks, before the DC10s took off again on a limited schedule.

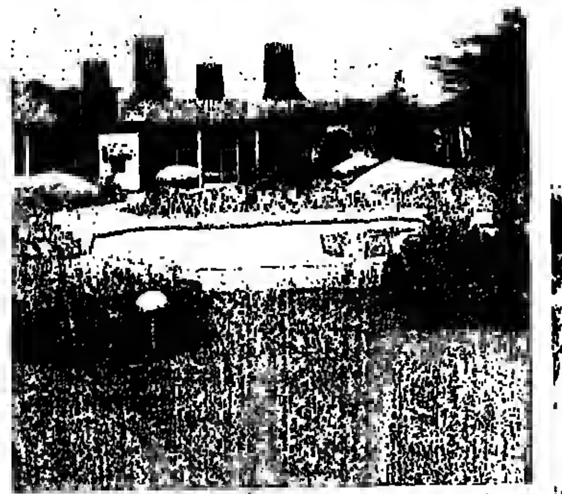
But without the American Federal Aviation Authority lifting the ban on the planes, Air New Zealand is still in trouble — Los Angeles became the airline's main profit earning route last year.

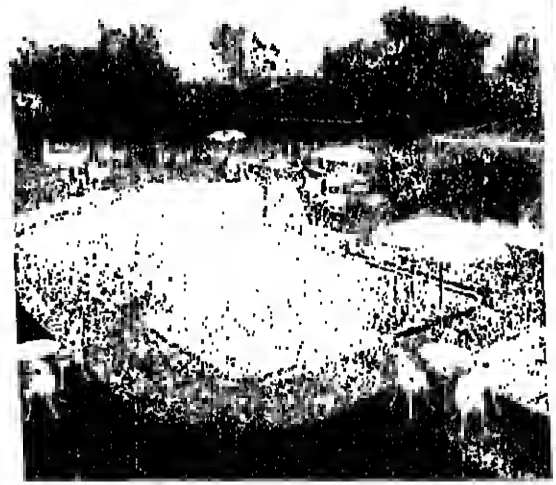
Top executives worked without pay all last week pruning expenditure to keep the airline on a profitable flight path in what was already a difficult year.

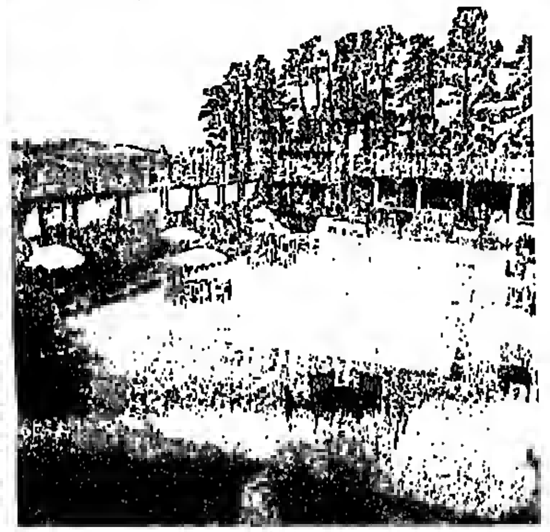
A profit, even a very small one, is still Davis's aim though he is giving no assurances that the airline will stay out of the red this year.

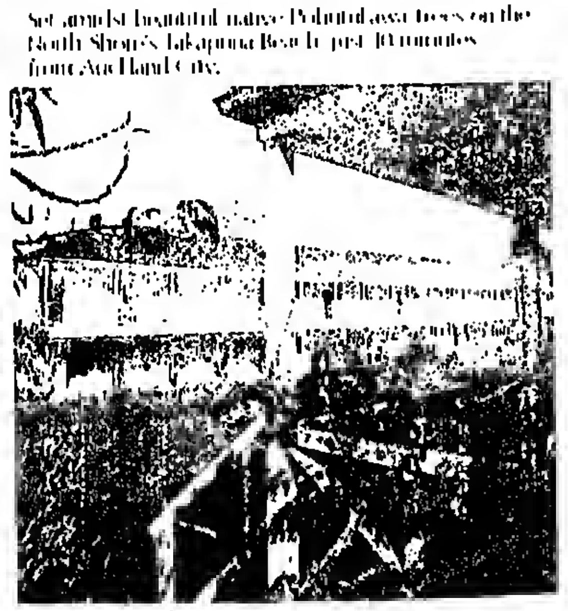
And leading by example in these austere times, Davis told staff and journalists he will be forgoing a pay rise this year and will make do without a new company car.

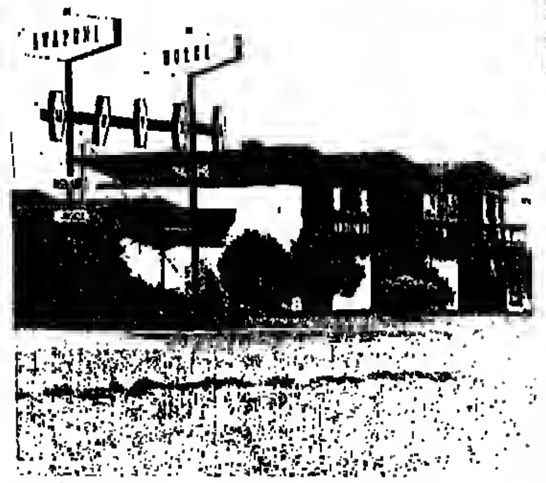












Cut-price bottle stores face supply battle

by Rae Mazengarb

THE liquor industry giants may have been ganging up on small cut-price liquor outfits in an attempt to put the stopper on a trend towards competitive pricing policies.

When the Commerce Commission holds its public inquiry next month into allegations of restrictive trade practices, the heavies will be fighting to preserve their right to prevent discounting of their products.

But already the Examiner of Commercial Practices has said their actions are against the public interest in that they prevent effective competition in the market place.

Westport-based wholesaling company Baillie Wines and Spirits Limited — operating on margins lower than those traditionally taken in the trade — for some time has been supplying hoteliers with cheap liquor. Those hoteliers in turn have become known for passing those competitive prices on at retail level.

But in March this year, Baillie's major suppliers refused to supply certain products to the maverick company except on terms which Baillie claims are so disadvantageous as to be likely to deter the company from acquiring the products.

Apart from its wholesale and private trade business in the Westport area, Baillie operates bonds stores and warehouses in Christchurch and Dunedin, and recently established stores in Palmerston North and Auckland.

Phillips and Pike Limited, of Wellington (a subsidiary of Dalgety NZ Limited) is the New Zealand agent for Beefeater gin, Cointreau, Drambuie, Tia Maria liqueurs and other well-known lines. Since 1975 it has been supplying orders from Baillie for delivery to the Christchurch and Dunedin bond stores.

In March, Phillips & Pike advised Baillie that in future it would deliver orders only to Westport, on a freight-paid basis.

Thus products for Baillie's customers in other areas would have to be transported first to Westport, placed in bond, and then transported on to Christchurch, Dunedin, Palmerston North and Auckland at Baillie's expense.

About that time, major wine producers also refused to supply orders from Baillie for delivery in Christchurch and Dunedin, but these suppliers later agreed to return to previous terms of sale.

But other major suppliers, who adopted Phillips & Pike's new terms of supply, have stood their stance. These companies are Canterbury Wines and Spirits Limited, Christchurch; Fletcher Humphries & Co Limited, Christchurch; and Hughes & Cosaar Limited, Auckland.

In its report to the Commerce Commission, the Examiner of Commercial Practices says: "At this stage I do not have any evidence on whether there was any agreement between the wholesalers which resulted in them acting in a similar manner at around the same time, or whether the timing was mere coincidence. Phillips & Pike has indicated it acted because Baillie was expanding its business activities."

According to Baillie, the suppliers' action is detrimentally affecting the financial position of the company, since it is unable to absorb the extra costs.

Because Westport is out on a transport limb, the company will have to maintain very high stock levels.

Not only does this mean the company will have to expand its storage facilities, but more working capital will be required to finance products tied down in a long transport system.

Baillie decries this as "ridiculous", in view of the fact that stock will be passing right through its final destination.

"Quite frankly, if we have to work through Westport the additional costs would force us to re-examine our present margin and this plus the freight would be reflected in a needless increase in the price of product to the consumer," Baillie managing director S G O'Keefe told the examiner.

The examiner took such a dim view of Philips & Pike's actions that even while the other investigations are continuing he submitted his report to the commission.

He is unimpressed with the reasons submitted by the Wellington company to justify the practice.

Phillips & Pike maintain that discounting or price reductions tend to lower the status of the product.

The examiner pointed out one of the main objects of the Commerce Act is to secure effective competition.

"I do not believe the general public identifies a reduced price with an inferior product," he said — especially when those products are such as Drambuie.

By imposing sanctions against those customers who chose to reduce their prices, Phillips & Pike may even be operating an illegal individual resale price maintenance practice, he added.

Phillips & Pike argued the principals in UK would cancel the agency agreement if the product were discounted.

The examiner pointed out that Beefeater gin has been discounted by several retailers in Dunedin for the last 15 years.

He also pointed out Wellington's Western Park Tavern had recently promoted that product at reduced prices, but no action had been contemplated against that outlet.

He could only conclude that Baillie was being singled out for the discriminatory practice.

Responding to the suggestion that other customers of Phillips & Pike would cease purchases if discounting were allowed, the examiner doubted that other distributors would deny themselves access to "such well-established and popular brands of liquor".

The motive for such action would have to be an attempt to prevent price competition. If that was the case, such actions should be exposed and challenged.

Phillips & Pike argued that to supply Baillie other than to Westport could lead to breaches of the Sale of Liquor Act.

The examiner sought advice from solicitors within the Trade and Industry Department, The Licensing Control Commission, Crown Law and the Justice Department.

Their unanimous opinion was that it would not be illegal for a wholesaler to operate in this manner.

Lastly came the orderly marketing argument — again shot down by the examiner.

Phillips maintained "a change in the trading pattern . . . must detrimentally affect the whole industry".

Ideally, answered the examiner, market forces and the consumer's decision on how and where to spend his dollars should play the major role in determining the trading pattern.

Lately the consumers had benefited and any return to a more restrictive form of trading would not be in their interests.

Moreover the only change in the trading pattern was that which occurred recently. For four years Philips & Pike had supplied to Baillie on the previous terms.

An extension of Baillie's activities to the North Island was simply an expansion of the company's sphere of operation.

Phillips & Pike had emphasised that the volume of business affected by the dispute was insignificant.

"Given this allegation", said the examiner, "it is difficult to take seriously (the) other claim that the whole industry would be detrimentally affected if Phillips & Pike resumed supplies on previous terms."

The examiner was satisfied that the new practice would jeopardise Baillie's business prospects, particularly in the North Island.

He concluded the practice was contrary to the public interest within section 21 of the Commerce Act.

"The situation could well arise where Beefeater gin would have to be transported from Auckland to Westport, and then from Westport to Palmerston North or back to Auckland. In practical terms, however, Baillie's assessment is that the practice will effectively prevent it from competitively selling liquor in the North Island, and this, presumably, is the objective of the practice," the examiner said.

Already Glenleith Holdings Limited, one of Baillie's customers, has confirmed that retail prices will have to be increased by the same amount as Baillie's increase to them.

The practice has the effect of increasing the costs relating to the transport, storage and distribution of the sale of liquor products.

Baillie and its customers had already become well known because of their willingness to provide products to the public at lower prices than normal and the examiner saw this as a healthy development.

"Because the companies which are being detrimentally affected by the practice stand out in the industry because of their effective and competitive pricing policies, their influence on attitudes in the industry and the competitive policies of other companies is in my opinion vital if effective competition is to be secured", he said.

When the preliminary hearing of the complaint is held by the commission early next month — to determine what parties will take part in the substantive hearing a few weeks later — the full implications to the trade should be known.

For all those wishing to come to the party there will be a lot at stake.

Breweries loose liquor trade grip

by Rae Mazengarb

CRACKS are showing in the brewery dominance of the liquor trade.

Industry observers say the Baillie case is likely to destroy the entrenched position of the liquor merchants.

The Commerce Commission's approach to the case largely will determine the principles to be applied in other cases where complaints to the Examiner of Commercial Practices have alleged restrictive trade practices in the liquor industry.

The wholesalers — who defend what is sold to be their monopolistic position with claims that they perform a necessary distributive function — stand to lose a great deal of muscle.

For those who have battled the breweries in the past, the case could score them plenty of points, if Baillie retains its right to sell liquor at cut rates.

They point out that the consumer will get a better deal if price competition is allowed to develop.

Holders of wholesale licences under section 67 of the Sale of Liquor Act 1962 do not necessarily always sell wholesale.

Consider the different business activities of Baillie Wines and Spirits and Phillips and Pike.

Phillips and Pike sells only to licensees, such as wholesale licensees and licensing trusts.

But Baillie sells to licensees such as hotel-keepers and also conducts a retail trade.

There's a third type of wholesaler who holds such a licence but elects to sell direct to the public in "wholesale" form.

Critics of the established trade say those wholesalers who simply sell products to resellers are now looked on as an oligopoly.

They admit there is a place for wholesalers, but it is normally limited.

For many years, it has tended to become rather unlimited.

The Association of Chartered Clubs of New Zealand — representing 250,000 members — is concerned at "the system that forces our clubs to purchase bottled and canned beers through wholesale liquor merchants instead of direct from the breweries".

That complaint followed two similar ones from Wineworths Limited, concerned particularly with practices in the wine arm of the industry, and the Duke of Marlborough hotel at Russell.

The association complained that it had to absorb unnecessary costs on beer that was supplied direct from the breweries but invoiced through specified liquor merchants.

At stake for the winesellers was their right to buy direct from the winemaker, circumventing the high mark-ups made by the wholesalers.

Some observers have suggested that Baillie was merely a token wholesaler — a middleman — when the company supplied to customers outside Westport.

Baillie didn't touch the product but simply billed customers, albeit at a cut rate.

But the Westport company refers to the reasons for its expansion into Christchurch and Dunedin — and most recently Palmerston North and Auckland. The major breweries bought many of the hotels in the Westport area which formerly made up the bulk of Baillie's wholesale customers.

From then on those hotels obtained supplies through brewery sources and Baillie had to seek outlets in other areas to maintain viability.

For Baillie's customers, the arrangement was ideal.

Glenleith Holdings Limited has outlets in Dunedin, Christchurch and, more recently, Auckland. It is a holder of a wholesale licence, but preferred to use Baillie because of the low margins.

Glenleith could in turn offer its retail customers a more competitive deal.

It was the expansion of the price war to the North Island which forced the cartel to fight to defend its own position.

Last August Wineworths complained that Cooks, Corbans, McWilliams and Montana would not supply it direct. (Wineworths is said to be the biggest independent wine reseller in the country).

Instead, the company had to get supplies from the wholesale merchants — in many cases, competitors.

To remain competitive with the wholesaler, Wineworths must charge far less mark-up (less than 25 per cent).

The wholesaler, on the other hand, sells to Wineworths at 17½ per cent mark-up, but wholesales at 40 per cent mark-up to the public (retail is about 52 per cent mark-up).

Wholesalers justify their position by saying they perform a distributive function — and in many cases this is true.

But Wineworths managing-director Gordon Thompson said the trucks that brought the wine came direct from the winemaker. The wholesaler never sees the wine, but takes the mark-up.

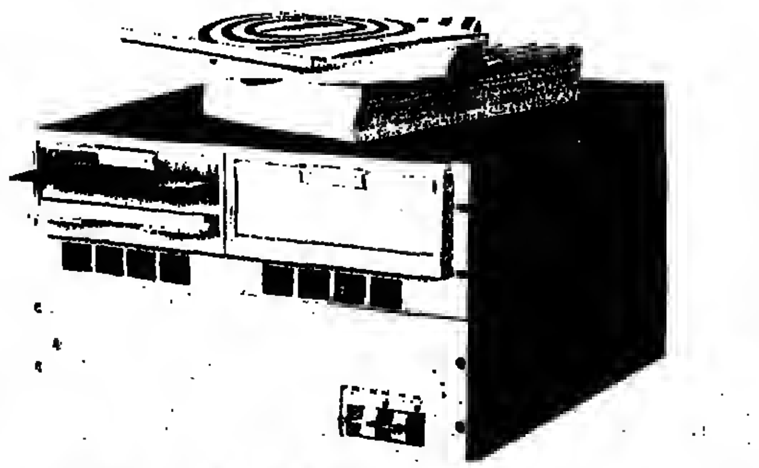
Wineworths argues it could pass on savings of around 15 per cent to the consumer if it could buy direct.

Wineworths' case is still with the Commerce Commission. But if the wholesalers hold their position, Wineworths will apply for its own wholesale licence.

Thompson says if it does this, it will buy direct from the winemaker and will drop mark-ups substantially.

After Wineworths, others will doubtless follow — if the plan works.

This is the threat that hangs over the established trade.



Reserve Bank moves on local body stock ploys

by Warren Berrymon

THE Reserve Bank issued an ultimatum to the 30 or so specialised money merket dealers trading in local body and Government etock — either stop bending the rulea to push local body stock interest ratas beyond their regulated 13½ per cent or lose your status as a Reserve Bank recognised dealer.

Interest payable on locel body stock is held to 13½ per cent — one of the few remaining areas of reguletion in a daregulated money markel.

Reserve Benk Deputy Governor Dick Wilks advised dealers: "It has been brought to the Reserve Bank's attention that the controls on the interest rates which moy be offered by local euthorities are being circumvented by errengements epperently involving aome brokers, local euthorities end treding banks."

Wilks did not aay how these arrangements worked.

While there ere several variations on the theme, NBR understends e typicel orrengement for circumventing the 13½ per cent limit goes something like this:

A broker goes to inveators, offering ebout 14 per cent for locel body atock. (Intereet rates for local body atock current lost week were 14.01 per cent.)

The money gathered from investors is lent to the local body at the reguleted 13½ per cent.

The local body, not needing its caah immediately reinvests it with a trading bank. By prior arrangement between incal body, treding benk, and broker, the bank pays the local body en artificially low rete of interest on its deposit.

For example, the current rate for a six month deposit might be 12 per cent, but under the arrangement the bank only pays 5 per cent. This leaves the difference — 7 per cent — to be paid to the broker es commission.

The broker keeps some of this commission for himself, and pays the rest to the investors to bring their investment yield in the local body atock up from the 13½ per cent to 14.01 per cent.

The end result is that the investor gets his 14 per cent yield on local body etock. And, because the locel body is forced to eccept an ertificielly low interest rete from the treding benk as its pert of the arrangement, the locel body is paying 14 per cent for its money.

The winner is the broker who is cut into the deal as middleman primerily to circumvent the reguletions.

The Office of the Auditor Generel began inquiring whether this sort of deal was strictly legal.

When this eort of arrangement, which has been done in e small scale for yeare, began snowballing, Wilks wrote to the dealers and told them to desist.

Wilks' letter seid. "The controls era designed to promote orderly fund reising by individual locsl euthorities end it is e matter of serious concern that some locel authorities are participeting in these deals to give themselves a competitive edge over other authorities end borrowers.

"The Reserve Bank regards this metter seriously and accordingly requests eny specialised dealer involved in this prectice to cease doing so forthwith. If it comes to our notice thet any specialised deeler is persisting in organising these deals after receipt of this letter it ie the bank's intention to review such dealer'e status.

"Recognition as a specialised dealer could be removed without notice", the letter said.

The Reserve Benk's recognition gives e specialised deeler direct eccess to the Reserve Bank allowing it to wholesale Government etock.

Traditionelly, local body stock has yielded interest rates 0.5 per cent better then Government stock. This differential is maintained et the regulated rates — six-year local body stock at 13½ per cent egeinst five-yeer Government atock at 13 per cent.

But locel body etock looks far more attractive when, after bending the rules, one can receive 14 per cent.

Money market sources claim the feult lies not with those dealers circumventing the regulations, but with the regulations themselves.

They ask why this area should be controlled when controls heve been lifted on other sectors of the money market?

No number of regulations will prevent willing lenders and willing borrowere from getting together to strike their own deals. But circumventing regulations does add to the costs borne by both lender and borrower, they cleim.

Wilks said the Reserve Bank was not in the hebit of making idle threats but that they had not had cauee to lower the boom on eny dealer since the letter was sent out on June 1.

Wilks said thet since these sort of deals enowbelled in recent months it has become almost impossible for e local body to stick by the rules and raise money.

"We would like all local bodies to heve an equal bite at the money available", he said. "But as it is now the big local bodies heve an edventage as they can jack up these sort of deals."

As for the dealers involved, Wilks said, "it wes e cese of the smart boys seeing the opportunity and selling hard."

Incentives boost CNG as energy solution

by Belinda Gillespie

LAST year the Budget geve LPG a boost by making conversion costs e tax writeoff for business interests. This year it's CNGs turn.

Energy experts had been left wondering why one and not the other?

Finance Minister Rob Muldoon cancelled the question on Budget night by offering incentives for CNG use in business vehicles.

These boosts included a 25 per cent cost grant for installations providing the gas as a motor fuel with a tax writeoff allowance for the balance. Muldoon coupled these with a provision of immediate tax writeoffs for CNG conversion costs of business vehicles.

Unlike LPG, which is a by-product and therefore available in proportion to the amount of gas used, there are no limitations on the supply of CNG.

It provides one answer to the vexed question of what to do with Maui gas.

Jonathan West, of the Liquid Fuels Trust Board — a statutory body set up last year to look at the Transport Fuels problem said before Budget night that the future of CNG was in the balance.

The board made thorough investigations into CNG last year, but met with disinterest until this year's crisce in the availability of conventionel fuel and overseas funde with which to buy it.

West is joint euthor with Lloyd Brown, of the Wellington Gas Company, of en April report on CNG to the New Zealand Energy Research end Development Committee.

He said that while the industry needed economic end technical incentives to get underway, it will then have to contend with difficulties such as the lack of town-planning provisions for filling stations and the lack of safety standards necessary for cars (at present under examination by the Standards Institute).

A co-ordinating committee has been set up by the Fuels Trust Advisory Boerd to overcome some of these problems.

Because of the lack of en infrastructure for converting and servicing cars, the emphasis for the next two yeers et least will be on fleets of vehicles, where the operatore are prepared to provide their own facilities and train personnel, West predicts.

"We don't went en masse conversion till we have specialists," says West. "After two years we will have the expertise end the infrastructure to encourage the private motorist."

Until that time, there is elready evidence of private compenies agreeing to supply the public, end to shere fuelling stations.

West and Brown's paper proposes that the Government go much further then its Budget meesures.

Tax write-off allowences for vehicle refuelling stations, the provision of low interest loans, ond the conversion of all suitable Government vehicles were needed for e start, seid West and Brown.

They went moves made to develop cheep vehicle conversion assembly lines, to train personnel, to develop locel production of CNG componentry, and to formulate appropriate standards of safety and operetion for CNG-powored vehicles.

Although higher powered LPG holds more attraction for the individual motorist, West and Brown claim thet "LPG does not compare favourobly with CNG under eny scenario".

CNG conversion systeme have o markod cost ndventage. In some categories — specially taxis ond heevy goods — the use of either fuel can be economicelly justified, and the two are likely to compete for merkot ponetration.

West ond Brown proposed that both fuels should be utilised on a geographical bosis.

"CNG hos immediate potentiol only in those North Island areas that are gas reticuloted . . . It hes no epplication to non-reticulated North Islend regione, or the South Islend. It is in these non-roticulated ereas that LPG should be utilised."

Unrestricted competition between the two, say the experts, "could reduce their potential as petroleum savers, and would restrict the economy of scale effect, particulerly in the distribution of LPG".

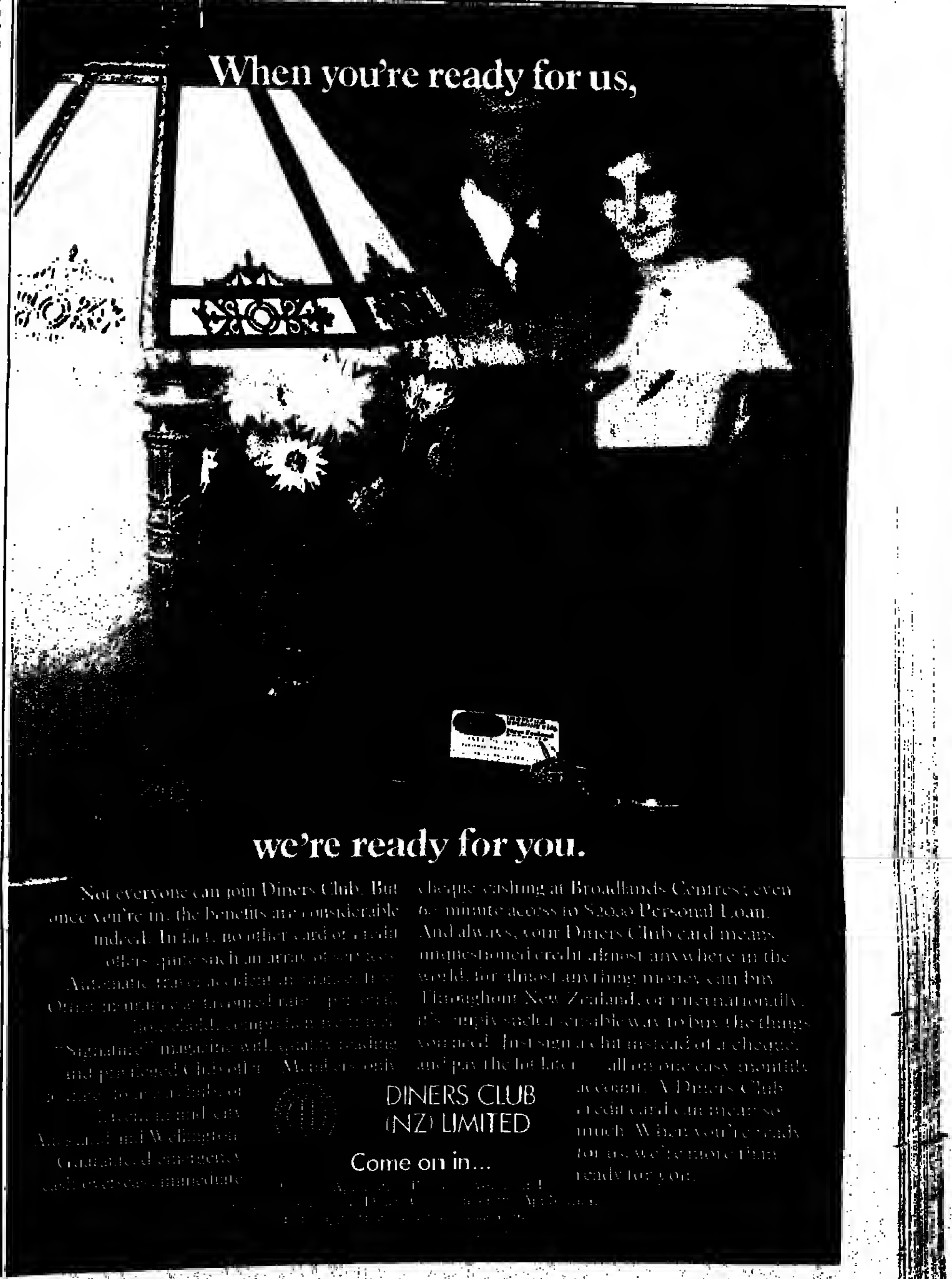
The Government is kicking its heele. But BP end Shell, with the sole wholesale rights to LPG, are moving.

Organisation for a chain of 11 LPG outlets from Wellington to Whengerei is under way, and should be complete by the end of the year.

A distribution network is planned for the whole of the North Island, on the same lines as that existing for petrol.

The companies have no plens for the South Island.

The availability of LPG will alweys be governed by the Maui gas draw-off retes. The greater the gas use, the more LPG.



FIJIAN TAX CONGRESS ATTRACTS NEW ZEALAND, AUSTRALIAN AND AMERICAN VISITORS

New Zealand's first Offshore Tax Congress scheduled to be held at the new Naviti Resort Hotel in Fiji on July 28-29, has attracted a great deal of interest, not only from New Zealanders (for whom the conference is intended) but also from Australians and Americans.

In addition to New Zealand registrants, sizeable contingents will also be coming from the United States and Australia. Principal speaker at the congress will be well-known Australian tax lawyer and author, Peter Clyne, LL.M. Other speakers include Wellington's Bob Jones, and Auckland barrister and tax lawyer, Bruce Grierson.

The purpose of this gathering is to discuss methods by which New Zealand business and professional men can structure their affairs in such a way that the end result is that they will pay less tax than they may currently be paying.

Cost of attendance, including all congress fees, air fares, accommodation, etc., range from $555 for a three day stay to $695 for a 10 day stay in Fiji.

Full details on the congress can be had from Professional Publications, P.O. Box 820, Wellington. [Telephone 728231].

State auditor calls for private accountant aid

by Colin James

THERE may be a place for private enterprise accountants in future Government departmental financial management.

If there is, it would be to help departments set up or revise financial management systems.

Outside accountants have been used in specific projects in the past — in the Audit Office team which investigated departmental financial management and in a Railways Department working party to set financial objectives.

Whether they will be used more regularly in the future has yet to be decided by the Treasury — and will not be decided until the new financial management division is set up in the near future.

The idea comes from a task force which since last year has been working on problem areas pinpointed by the Audit Office investigating team.

That team said there was a serious shortage of competent accountants in administrative departments and recommended a survey to "establish the need in Government for financial personnel by type and level".

This has now been done by the task force and the State Services Commission. Task force head, deputy Auditor-General Jeff Chapman, says the survey showed there was not a great shortage of accountants. Rather it may be that some are misplaced.

The problem is one of quality rather than quantity, he says.

The task force is recommending to the Treasury that a centralised pool of qualified accountants be set up to fill temporary vacancies and undertake specific assignments such as helping individual departments set up financial management systems.

It is in the second role that the task force sees the possibility of outside accountants being brought in on short-term contracts, or on a consultancy basis.

The Treasury aims eventually to improve the quality of accountants in the administrative departments themselves.

Nevertheless, as a second-best short-term solution, the pool is likely to have some appeal.

Treasury assistant secretary J. R. Battersby is keen to attract more accountants from outside the public service to the permanent staff.

But he added: "I don't think public service salaries would attract people of the calibre we would want."

Chapman sees salaries as less of a problem than the existence of an attractive career structure. This was also a preoccupation of the Audit Office investigating team.

There is no indication yet that salaries for accountants will be raised. Any improvements are more likely to be in the nature of opportunities to reach higher levels than at present.

If the task force's idea of a "pool" of accountants is adopted, the pool would most likely be attached to the proposed new financial management division in the Treasury.

The division will be put together when the "director of financial management" is appointed within the next few weeks.

It will have overall responsibility for improving financial management in the public service.

It will comprise two existing sections, the management accounting systems section and the resource management section. Though its head will not be at assistant secretary level, as the Audit Office investigating team recommended, the upgrading of status from section to division will improve the status of the financial management function in the Treasury.

In the meantime some progress has been made on improving training for accountants and those involved in financial management, another concern of the Audit Office investigating team.

Since the beginning of the year half of the two-week State Services Commission senior management courses held at Burmah Lodge now deal with financial management. This part of the courses is run by the Treasury.

Battersby says that six-week Government finance and accounting courses for senior financial managers — who are now often not trained accountants — are due to start at Victoria University in Wellington in November.

Battersby says these courses will not be a victim of the current university cuts.

At "technician" level — senior clerks who do the "bookkeeping" in departments — Battersby hopes soon to get courses going to improve their knowledge of Government accounting overall and improve their efficiency.

Govt brings in flexible state spending checks

by Colin James

THE Government is this year setting up two pilot schemes to introduce more flexibility into Government spending control.

Both are designed to test the practicability of recommendations last year by an Audit Office investigating team into departmental financial management.

One pilot scheme involves the introduction of a revolving fund for the running of farms administered by the Maori Affairs Department in the Waikato.

At the moment the total expenditure on 17 farm units in the district running into several million dollars, is separately appropriated each year by Parliament. All the revenue goes into the consolidated fund.

Under the revolving fund, the revenue will go into a type of trust fund, from which expenditure will be taken. If expenditure does not exceed income, no appropriation will be necessary.

Initially a fund will be set up to provide a working balance.

The Audit Office investigating team felt that this technique would be useful in the administration of stores, particularly in the Defence Department.

The second pilot scheme involves a district office of the Customs Department.

It introduces a block allocation of funds under the control of the district manager.

The traditional system allocates the funds to districts in watertight compartments for salaries, vehicles, equipment and so on. The experimental scheme would leave the district manager with a certain amount of flexibility in how he would use the funds — though within stated restrictions on staff ceilings and so on.

Both schemes have been approved by Parliament's public expenditure committee. If they are to extend to general use, amending legislation would be necessary.

Task force examines records design

by Colin James

A TASK force under deputy Auditor-General Jeff Chapman is now examining whether the system that records the Government accounts needs to be redesigned.

The system is now 10-years-old and a number of additional functions have been tacked on to it. Last year the Audit Office team investigating government departmental financial management criticised some aspects of it.

Treasury assistant secretary J R Battersby says the task force is studying whether the system needs to be redesigned or whether it can be further patched up.

Redesigning would be a lengthy exercise, he says. Last time it took two years.

The Audit Office investigating team criticised the accounting reports supplied to departments as being in numeric code, unintelligible to financial managers without tedious clerical analysis.

The Audit Office said some departments were getting plain language reports — Battersby says most departments now are — but these reports were not detailed enough.

The Audit Office also said the reports were only of money actually spent, and departments often had to maintain their own systems to record expenditure they had committed but not actually made.

This is one of the subjects being reviewed by the task force. It is also looking into another Audit office team complaint — that the accounting reports supplied to departments do not include a comparison with departments' budgets.

The Audit Office also criticised the system of forward projections through Cope (the committee of officials on public expenditure), the financial forecasting system and policy reviews.

The system was too easy on existing policies and too hard on new policies, it said.

Battersby says the Treasury rejects the Audit Office recommendations that Cope be replaced by a system requiring departments to prepare three-year projections of the cost of existing policies for review by the Treasury.

He says that bringing other departmental officials into the review process through Cope increases the range of expertise applied to the task, spreads the Treasury burden and encourages acceptance by departments of the final figure which is up to $200 million lower than departments' original claims.

Battersby also says the Treasury has approval to develop a system of analysis and review of existing programmes to see whether, among other things, the programmes need to continue.

But this is held up until the Treasury can find a "high-powered man" to head the small group that would do the reviews.

An automatic review of all new programmes after three years of operation has been introduced. This, Battersby says, will require the Government to make a conscious decision whether to continue the programmes.

He rejects departmental criticism of arbitrary cuts forced by Treasury staff on departments.

He says that if departments are not forthcoming with possible cuts, the Treasury has little alternative to making arbitrary cuts, if the Government has ordered cuts.

However, he adds, this year it seems departments are coming up with more specific suggestions themselves.

The Audit Office suggested that substantial services provided by departments to each other should be charged for, so that departments can see the real cost of their activities.

Examples given by the Audit Office were architectural and engineering design services provided by the Ministry of Works, audit services by the Audit Office, rent and office cleaning.

Battersby considers most impracticable. However, he says, the possibility of charging out architectural and engineering services is being studied.

NBR BUSINESS WEEK

Oil diplomacy blackens economic recovery

by Peter V O'Brien

THE "oil crisis" is another of those catch expressions which get over exposure in the community, similar to the treatment given to "restructing the economy".

But there is a problem, and it is unlikely to fade in the foreseeable future. Last week the Saudi oil minister, Sheikh Yamani, warned that oil prices would continue to increase, and that even a modest consumption lift of 2.5 per cent a year would seriously deplete international oil reserves by 1988.

At the same time, overseas analyses forecast recession on a large scale unless a solution is found to current trends in prices and consumption. While it may seem ironical that some of these comments emanate from the United States, a country which seems singularly incapable of effectively controlling its consumption, they are worthy of attention.

The London Economist, occasionally referred to as "the alternative Opposition in St James' Street", has been castigating the Americans for controlling oil prices, rather than letting them rise. Higher prices would put a market inhibitor on United States consumption. That august publication also claims that subsidies should be abolished in the United States.

"Since subsidies in a free market contribute wholly to driving prices up, European officials have called this 'unbelievable', while American officials have replied that the Europeans are 'hysterical, unhelpful and hypocritical' (language used by rattled bureaucrats whose mutually contradictory muddles are in a twist)."

The Economist makes another observation in relation to the oil trade cycle, a cycle which will have a disastrous effect on the poorest countries, both directly, and indirectly as rich countries respond to the effects on their economies: "The intensifying of the oil trade cycle has miserable political results. Governments which prided themselves on defending 'human rights' are kowtowing to Iranian mullahs who are flogging women with a hundred lashes for exercising normal sexual freedom."

Irrespective of the validity or errors of western government policies, the present situation and policies will have an inevitable result. Inflation in the United States, Europe and Japan will rise this year, beyond the forecasts made at the end of 1978.

A rising United States dollar in relation particularly to the yen (oil prices are expressed in United States dollars) is one reason. The dollar has increased in value about 20 per cent since late 1978 while the price of oil has gone up 25 per cent.

Consequently, the Japanese are faced with a large rise in real terms for a commodity which is vital to its industrially based economy. That in turn will lead to an increase in Japanese inflation, and a deterioration in its balance of payments.

Given similar problems in the main economies of Western Europe, the usual reaction will come — retrenchment in the world's major economies.

An American comment (which has to be considered in the light of criticism of American policies mentioned earlier) gives a key, albeit it flamboyant, to possible developments:

"So, as the United States slides into recession, the prospects for having that recession moderated by prosperity in Europe and Japan are fading. The countries that are making all the money — Saudi Arabia, Kuwait, Libya — can't spend it, so you can't count on Opec to save the situation. The day the Shah fell marked the true beginning of what may turn out to be the great recession of 1979." (Forbes: June 25)

In view of Kuwait's decision to lift the price of its oil 18 per cent last week, and of Yamani's comments (he is usually described as one of the "liberal" Opec oil ministers) the forthcoming Opec meeting holds little hope for immediate relief, although anything is possible in the weird world of political and oil diplomacy.

Assuming that the oil problem continues to deteriorate, New Zealand will face higher import prices at a time when international recessionary forces would affect our exports. That scenario is a severe constraint to economic recovery in this country.

Among other things, the possibility demands immediate decisions, and implementation of those decisions, on our alternative energy sources, rather than the bumbling of energy bureaucrats which has impeded development.

There might be a way out, if the experience of 1973-74 repeats itself. The acquisition of massive funds in Opec hands leads to a recycling of the money in time. A deterioration of the international economy affects everyone, a lesson which was learned a few years ago. If that lesson is remembered the difficult time would be short-lived.

But there is another problem this time around. The Moslem revival is many things, depending on who is doing the analysis. It is certainly a rejection of "values" and systems which the West thinks are "normal".

If that thinking is entrenched, why make concessions in order to support the alien values and systems, particularly when the aliens have already demonstrated willingness to accept, and condone, your philosophy for their material reasons?

Key indicators

		Current Period	Previous Year	Percent Change
Consumers Price Index – all groups base Dec 1977 = 1000	March 1979	1120	[illegible]	+10.8
Building Permits Issued	Feb 1979	$ 94.7m	$ 67.7m	+40.3
	Feb 1979 yr	$1130.1m	$1106.7m	+ 1.8
Official Overseas Reserves	April 1979	$ 815.1m	$1013.3m	−19.3
Registered Unemployed – incl. those on special work schemes	April 1979	40,030	35,889	+14.1
NZSE Share Price Index	June 20, 1979	338.04	327.35	+ 3.4
Reserve Bank Share Price Index	June 20, 1979	1414	1368	+ 3.4

Analysing annual accounts

by Peter V O'Brien

A LOT of financial work was done at Tasman Pulp and Paper Co last year. The annual report shows a total reorganisation of the company's finances. The profit and loss account in particular, is a lesson in how to turn a sow's ear into a silk purse.

Tasman sold $145 million worth of products, of which $106.2 million were exported. Total sales were down $5 million on the previous year, while exports were $6.7 million below the $110 million recorded in 1978. Industrial disputes were the main reason for the decline in production and in export income.

Local sales were ahead of 1978, so the disputes accounted for a greater fall in foreign exchange earnings than the $5 million overall downturn.

Tasman's direct costs were $132.1 million compared with $126.1 million, and "operating profit" was almost halved at $13 million, as against $24.8 million. Allowances for other income and non-production charges resulted in a "Loss before export incentive benefits and Taxation" of $6,589,000. In 1978 there was a profit of $4,251,000 at that stage of the profit and loss account.

Then the adjustments were brought in. The addition of $7,756,000 worth of taxation credits on export incentives produced a profit "before extraordinary items" of $1,167,000 ($13,484,000 in 1978). Another $8,030,000 of "extraordinary items" (1978 - nil) gave a final figure of $7,197,000.

Even the extraordinary items are complicated. In the preliminary report reference was made to the sale of geothermal bores. That sale realised $3,884,000. The company also realised a profit of $510,000 on the sale of shares, and took up $1,836,000 in the consolidated accounts as "deferred taxation no longer required".

While Tasman has been the victim of many events outside its control, it would be in a serious state without the goodwill and tax policies of the Government and the activities of quasi-government agencies.

The Government bought the geothermal bores, and the Government's policies provided the tax credit of $7,756,000. The Development Finance Corporation bought a ship for $13 million and arranged a charter party back to Tasman, thus eliminating a foreign exchange exposure on yen loans. Since balance date, a second ship has been sold to Tasman with the cost being offset against a debenture in Forestry Shippers Ltd.

The company also raised $10 million in secured debentures stock and $10 million in redeemable preference shares, a total of $20 million. The consolidated balance sheet reflects these transactions, which in total represent the biggest financial reorganisation ever undertaken by a New Zealand company in one year. The $20 million raised in shares and debentures is also the "largest company placement on the New Zealand market", according to Chairman Ron Trotter.

The balance sheet is much stronger than in 1978. A working capital deficit of $23.2 million was turned into a surplus of $2.4 million, overseas loans were refinanced on the local market, and some local short-term debt has been switched into term liabilities.

But there are major amounts "off balance sheet". A note to the accounts says that Tasman now has taxation credits worth $43 million, which are "not incorporated in the accounts".

The results of reorganising overseas debt will show up this year. The almost horrific influence of movements in overseas currency is revealed in a note setting out the state of the exchange fluctuation account.

Tasman started 1978-79 with total exchange losses of $14,854,000. A gain of $1,100,000 reduced that figure to $13,754,000. The company then allowed for $7,903,000 in relation to amounts incurred before April 1, 1978 (and written off) and a further $2,121,000 in respect of the year to March 31, 1979. The adjustments left a balance of $3,730,000 to be written off in future years, compared with $6,951,000 in the previous year.

A combination of the new system of taxation allowances for exports and the $43 million available against future taxation should relieve Tasman of any tax liability for several years.

Many arguments could be raised about this financial situation in a public company, but Tasman has to be considered in a different light from the "ordinary" commercial enterprise. The numerous allowances and carried forward credits have to be related to the activities of an organisation which earns more than $100 million a year in overseas funds. The company's rationale is its contribution to exports, the largest contribution of any single manufacturing group.

The internal costs (Tasman has an unusually wide fluctuation in return on shareholders funds over the years) must be related to the "benefits" of earning that foreign currency. At that point theoretical arguments become sterile.

There is a total investment of $244 million in an operation geared exclusively to manufacturing goods from a local raw material, and to exporting about 75 per cent, in value, of those goods. A sizeable proportion of the remaining sales on the local market (newsprint) is import substitution, which adds to the net foreign exchange position. In that context a performance which relies on Government policy directed to the "common good" becomes more acceptable.

Institutionals dominate market

by Peter V O'Brien

THE private investor is becoming less of a force in the affairs of companies. The trend is worldwide, with New Zealand sharing in the pattern.

A recent London Financial Times feature examines the development in Britain. The document is based on an analysis carried out by the large pharmaceutical company, Fisons.

The company surveyed movements in its share register (the fourth such survey) and found there has been a significant shift to institutional investment. In 1969 over 55 per cent of the shares were held privately, but this figure fell to 44 per cent in 1975, and dropped to 32 per cent by 1978. Institutions now account for 67.5 per cent of the shares, compared with 45 per cent in 1969.

The increasing power of institutions is seen in other British companies. "In less than a generation the private investors' direct interest in United Kingdom listed securities has been halved from 60 per cent to 30 per cent of the total, with the rate of net disinvestment accelerating to over 1.5 billion pounds a year."

According to the United Kingdom sources, the personal sector disposed of a net 7.6 billion pounds of company securities between 1973 and 1977, but put just under 23 billion pounds into pension funds and life insurance. "At the current rate of disposal it is estimated that the private investor in Britain will be all but extinct by the end of the century."

INVESTOR INSIGHT

The British experience has peculiar features, including taxation, costs of buying and selling shares, and dividend controls. But other countries, including New Zealand are seeing the same phenomenon.

In the United States, the growth of mutual funds, pensions, and other forms of institutional investment have given the American securities industry a lopsided structure. The activities of fund managers aggravate the operation of a stable market. Lack of stability affects the private investor who gets trampled in the rush for performance.

American funds, watching each other closely, and with access to detailed information which company directors would consider unthinkable in this country, move as a pack. When the numbers show it is time to sell the cult of "performance" make the bulk of managers sell at the same time.

The managers control the market. The brokers aid the managers because they prefer to deal in large parcels, rather than become involved in numerous small transactions, with comparatively high individual costs in relation to the dollar return.

The desire for security of investment is another factor in institutional dominance. Private investors feel "safer" if their funds are in large institutions. The spread of risk is better in a fund than in individual hands, although the chances of making a "killing" are also diminished (those chances are, of course, also diminished as a result of the institutional dominance which can act as a brake on rapid price changes).

The New Zealand market is smaller than those of the United Kingdom and United States, but institutions still dominate.

An analysis of one company shows the growing involvement of institutions in large organisations.

In 1975 the diversified pastoral group, Challenge Corporation, published a list of its 10 largest shareholders. The 10 accounted for 14.53 per cent of the share capital, but one was a private investor, with 0.72 per cent. Therefore nine institutions held 13.81 per cent of the capital.

In 1978 the 10 largest shareholders were all institutions. Their proportion of total capital had risen to 19.78 per cent. Other insurance companies and funds added to that total (the shareholders in positions 11 to 13 were institutional investors).

The size of New Zealand companies limits institutions to large groups, because they have problems in buying or selling substantial parcels in the many small companies listed on the New Zealand Stock Exchanges.

"Marketability" is an important factor in an institution's investment decision, as is the cost of accumulating a stake through the purchase of numerous small parcels. The total administration costs in an institution reduce the overall return on the investment.

The rising interest of unions in controlling pension funds (NBR June 13) may, in time, *be another influence on equity investment, shifting further* control to the hands of "institutions", in a broad sense of the term.

But it is possible to read too much into the trend, particularly in New Zealand. First, the funds of institutions represent the accumulated savings of many people, who combine their "private investments" in risk-spreading.

Second, Government control of institutions (through the ratios the latter must preserve in public sector securities and "guidelines" on house and farm lending) influence the money available for equity investment.

On the other hand, the tax structure is a disincentive to equity investment in private hands. Returns from life insurance policies are tax free, the income available for the return is taxed only once, and contributions to a life policy are tax deductible up to the statutory limit. The private investor in equities lacks those advantages.

And the public sector is now a powerful competitor for the investor's dollar. Fixed interest investment, with no risk, in the Government has to be compared with the vagaries of share investment. The latter *may increase in value, but also shows corresponding* cyclical declines.

ECONOMIC INDICATORS

EXTERNAL TRADE

As recorded in Reserve Bank record of Overseas Exchenge Trensactions.

	Perlod	Latest	Previous Year	% Chenge
Exports Meet	Apr 79	$108.Sm	$78.0m	39.0
	Apr 79 yr	$1121.3m	$902.3m	24.0
Wool	Apr 79	$83.0m	$63.6m	31.0
	Apr 79 yr	$720.9m	$610.4m	18.0
Dairy Products	Apr 79	$49.Sm	$51.3m	−4.0
	Apr 79 yr	$584.2m	$612.3m	−S.0
Forest	Apr 79	$27.Sm	$20.7m	33.0
	Apr 79 yr	$299.7m	$286.5m	S.0
Manufactured	Apr 79	$48.6m	$35.4m	37.0
	Apr 79 yr	$626.7m	$508.5m	23.0
Total Exports	Apr 79	$374.5m	$287.1m	30.0
	Apr 79 yr	$3937.3m	$3393.0m	16.0
Imports Government	Apr 79	$18.6m	$12.6m	48.0
	Apr 79 yr	$194.8m	$172.4m	13.0
Private	Apr 79	$271.0m	$215.8m	26.0
	Apr 79 yr	$3056.2m	$2898.2m	5.0
Total Imports	Apr 79	:$289.6m	$228.4	27.0
	Apr 79 yr	$3251.0m	$3070.6m	6.0
Balance on Trade Transactions	Apr 79	+ $84.9m	+ $58.8m	44.0
	Apr 79 yr	+ $686.2m	+ $322.5m	113.0
Balence on Invisibles	Apr 79	−$78.7m	−$77.4m	2.0
	Apr 79 yr	−$1087.8m	−$857.7m	27.0
Official Overseas Reserves	Apr 79	+ $42.2m	+$29.6m	43.0
	Apr 79 yr	−$167.1m	+ $267.4m	−38.0

FREIGHT MOVEMENTS

Shipping Cargo carried	Feb 79	2573	2728	−6.0
—000 tonnes	Feb 79 yr	32781	35818	−8.0
Rail Freight Carried	Feb 24, 1979	950	985	−4.0
— 000 tonnes	Feb 79 yr	11,666	12,770	−9.0

FINANCIAL

Raserve Bank Advances	Feb 28 79	$729.6m	$818.7m	−11.00
Trading Bank Advances	Apr 79	$3287.7m	$2618.8m	26.00
N.Z. Overseas Trensactions — balance on all transactions	Mer 79	+$377m	+$351.3m	
Restricted Survey of Hire Purchasa	Dac 78 qtr	$140.2m	$124.4m	12.5
— value of goods sold	Dec 78 yr	$530.7m	$449.0m	18.2
Mortgage Interest Rates — average	Jan 79	10.79	10.50	3.0
Govt short-term securities — everage yield	Mar 79	10.5	8.85	19.0
Govt long-term securities — everage yield	Mar 79	10.02	10.00	00.0
Land transfers (value of lend sold)	Jan 79	$192.9m	$102.5	88.0
	Jan 79 yr	$3376.0m	$2671.2m	26.0
Mortgages registered (value)	Jan 79	$140.7m	$79.6m	77.0
	Jan 79 yr	$2104.6m	$1842.0m	14.0
Mortgages discharged (value)	May 78	$87.5m	$69.8m	25.4
	May 78 yr	$998.8m	$906.6m	10.2
Bankruptcies (numbar)	Feb 79	36	62	−42.0
	Feb 79 yr	500	431	16.0
Sales tax collected (value)	Feb 79	$40.3m	$34.3m	17.0
	Feb 79 yr	$335.5m	$365.9m	−8.0
Totalisator turnover (value)	Mar 79	$448m	$38.0m	18.0
	Mar 79 yr	$470.1m	$395.0m	19.0

LABOUR FORCE

Industrial stoppages (working days lost)	Mar 79	67207	88226	24.0
	Mar 79 qtr	284860	452582	37.0
Normal weekly wage rates index	Mar 79 qtr	1147	1029	11.0
Effective weekly wage retes index (Base 1977-1000)	Mar 79 qtr	1019	1009	1.0
Vacencies at month end	Mar 79	1644	1343	22.0
Unemployment at month end	Mar 79	23,734	19844	20.0
People on special work scheme at month end	Mar 79	26,108	11,845	120.0
Migration	Mar 79	−17,764	−33,786	
	Dec 78 yr	−22,307	−13,727	
Totel New Zealend population	Mar 79 qtr	3,144,600	3,145,900	63.0
Births	Dec 78 qtr	50,940	54,179	−6.00
Deaths	Dec 78 qtr	24,668	25,961	−5.00

PRODUCTION

Electricity generation	Mar 79	1760	1628	8.0
— Million kWh	Mar 79 yr	21888	21554	2.0
Coal production	Feb 79	145.7	161.1	−10.0
— 000 tonnes	Feb 79 yr	2093.4	2206.3	−5.0
Gas production	Mar 79	4007.0	4851.3	−17.0
— million megajoulas	Mar 79 yr	55762.6	61819.1	−10.0
Motor spirit — petroleum prod.	Feb 79	81147	150052	−46.0
— million litres	Feb 79 yr	1672540	1810600	−8.0
Motor vehicles essembly	Mer 79	6178	4437	39.0
(no. of vehicles)	Mer 79 yr	53398	58416	−9.0
Building work put in place	Sept 78 qtr	$305.6m	$3485m	12.3
(value)	Sept 78 yr	$140.9m	$1349.9m	−15.5
Television sets	Dec 78 qtr	25219	23208	8.7
(units)	Dec 78 yr	89,986	119086	−24.4
All plastic products	Dec 78	$70.7m	$60.6m	17.0
	Dec 78 yr	$255.0m	$252.3m	−1.0

INTERNAL TRADE

Consumer price Index (base 1977 1000)	Mer 79 qtr	1126	1020	10.00
Retail trado — totel turnover	Feb 79	$449.54m	$388.3m	16.0
— Current prices	Feb 79 yr	$5768.1m	$5141.9m	12.0
Total turnover	Dec 78 qtr	$843.03m	$786.93m	7.0
— 1974 prices	Dec 78 yr	$3263.57m	$3224.59m	1.0
Per head	Dec 78 qtr	$533.85m	$459.7m	16.0
— current prices	Dec 78 yr	$1798.6m	$1626.7m	11.0
Per head	Dec 78 qtr	$269.17m	$281.7m	−4.0
— 1974 prices	Dec 78 yr	$1020.0m	$1056.5m	−4.0
Wholesele trade total turnover	Dec 78 qtr	$1621.6m	$1381.7m	17.0
— current prices	Dec. 78 yr	$5827.8m	$5428.9m	7.0
Stocks — Menufacturers	Dec 78 qtr	$2079.2m	$2068.5m	1.0
— Wholesalers	Dec 78 qtr	$903.5m	$964.4m	−6.0
— Retailers	Dec 78 qtr	$920.9m	$869.5m	6.0

Economic News

MIGRATION

Figures relaased by the Statistics Department on May 30, 1979, showed that migration loss figures for year ending March, 1979, were the highest ever recorded for a March year. The net loss to population of 29,906 is a 21 per cent incraase over the 1978 figure.
The following chart is an occupational breakdown of external migration figures.

EXTERNAL MIGRATION: PERMANENT AND LONG-TERM ARRIVALS AND DEPARTURES BY OCCUPATION DIVISION

MARCH YEAR

OCCUPATION DIVISION	1978 Arrivals	1978 Departures	Net Gain/loss	1979 Arrivals	1979 Departures	Net Gain/loss
Professional Technical and Related Workars	6496	9700	−3204	7680	13,496	−5816
Administrative and Managerial Workers	812	1168	−356	824	1916	−1092
Clerical and Related Workers	3804	8620	−4816	3988	9784	−5796
Sales Workers	1240	2648	−1408	1048	2828	−1780
Service Workers	1756	3032	−1276	1936	3672	−1736
Agricultural, Animal Husbandry and Forest Workars, Fisharmen and Hunters	880	1524	−644	932	1912	−980
Production and Related Workers, Transport Equipment Operators and Labourers	5768	13.852	−8084	6080	16,260	−10,180
Occupation not classifiable or unspecified	676	1316	−640	2420	3372	−952
Not Actively Engaged	15.540	21.820	−6280	15,900	27,768	−11,868
TDTAL	36.972	63.680	−26,708	40.808	81,008	−40,200

Sharemarket News

Current Debenture Issues

Company	Opens	Closes
AA Finance	14 Feb 1979	14 Aug 1979
Allied Finance	30 Mar 1979	30 Sep 1979
Auric Corporation	1 Jun 1979	1 Dec 1979
Aust Guarantee	22 May 1979	22 Nov 1979
*BNZ Finance	16 Dec 1978	15 Jun 1979
*Broadlands	15 Mar 1979	15 Sep 1979
Challenge	11 Apr 1979	10 Oct 1979
Cradit & Invastments	1 May 1979	1 Nov 1979
Crown Finance	1 May 1979	1 Nov 1979
Finance & Discounts	18 May 1979	18 Nov 1979
General Finance	22 Feb 1979	22 Aug 1979
*Ganaral Motors	30 Apr 1979	30 Oct 1979
Foodstuffs (Otago Southland)	11 May 1979	11 Nov 1979
International Harvaster	5 Mar 1979	5 Sep 1979
Lake Ohau Ski Field	26 Feb 1979	26 Aug 1979
*Lombard NZ	14 Dec 1978	14 Jun 1979
*Marac Holdings	5 Mar 1979	5 Sep 1979
*Madical Securities	8 Mar 1979	8 Sep 1979
NZI Financa	1 Feb 1979	1 Aug 1979
Paterson & Barr Financa	2 Feb 1979	2 Aug 1979
Retail Developments Ltd	29 Jan 1979	29 Jul 1979
South Canty Finance	31 Jan 1979	31 Jul 1979
Tappenden	21 Feb 1979	21 Aug 1979
*Transvision	28 Feb 1979	28 Aug 1979
UDC Deb Stock & Unsecured Nts	5 Jun 1979	4 Dec 1979

*Changed Rates
New Prospectus: UDC, Auric Corp
Issue Closed: F & P Dealor Rentals

Bonus Issues of Ordinary Shares Pending

Compeny				
ANZ Bank	1.4	25/6	7 Jul	2/7
Aurora	1:5	NFD	—	25/7
BNSW	1:5	20/7	1 Aug	29/6
ChPress	1:5	28/6	4 Jul	—
Conmetal	1:10	NFD	—	9/7
Haurakient	1:4	6/7	12 Jul	10/8
Healing	1:10	9/8	15 Aug	—
Indchem	1:5	NFD	—	27/7
Lustroid	1:3	25/7	1 Aug	13/8
NZMC	1:5	—	16 Aug	10/4
NZ Steel	1:10	9/8	15 Aug	25/7
Progent	1:5	24/7	28 Jul	18/6
Skellerp	1:10	15/6	21 Jun	13/8
Smithbio	1:S	3/8	16 Aug	27/8
Eadems	1:4	26/7	1 Aug	

Share Price Index Statistics April, 1979

NZUC	Year to Date	High	343.37 (Apr 79)
		Low	317.10 (Feb 79)
	Month	High	333.78
		Low	324.48
Reserve Bank	Year to date	High	1453 (Apr 79)
		Low	1344 (Feb 79)
	Month to date	High	1415
		Low	1374

MONTHLY TURNOVER

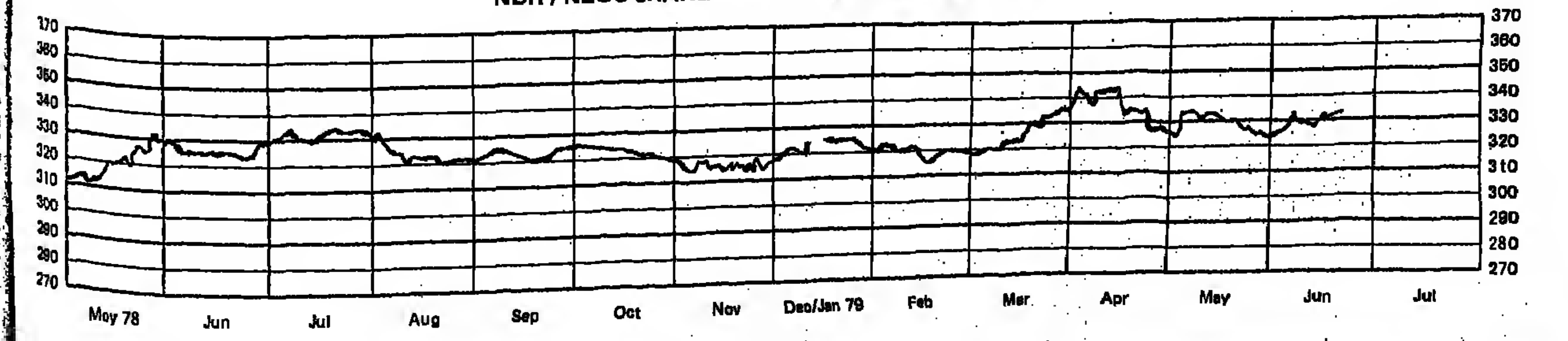
1978	June	10,337,080
	July	8,399,100
	Aug	8,858,700
	Sept	7,700,300
	Oct	8,761,865
	Nov	7,283,060
	Dec	6,860,250
1979	Jen	5,932,365
	Feb	12,433,982
	Mer	14,130,448
	April	13,100,105
	Mey	15,607,117

NBR SHAREMARKET SURVEY

WEEK ENDING JUNE 21, 1979

1979 High	1979 Low		Last Sale	Week's High	Week's Low	Dividend %	Reported Turnover	Dividend Yield	P-E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NBR / NZUC SHARE PRICE GRAPH (Base 1957 = 100)



Welfare stretches beyond planners' payout view

by Alan Levell

I WISH my father were alive today to take part again in discussion on the main purposes of the welfare state in New Zealand.

He and his mates at a freezing works in the 1930s, many of whom had been unemployed, argued enthusiastically about social security, state housing and better educational chances for their kids. Most of them hadn't gone as far as standard six at school.

After Dad went to the war in 1940, we moved into a new statehouse, thrilled and proud to be there. The house had been so well constructed, my father, home on leave, said: "Those carpenters knew who they were building these houses for."

Dad understood two basic things about the welfare state that I do not find in the Planning Council's report, "The Welfare State?"

First, he knew that the welfare state was not a narrow range of payments and services, but a wide spectrum of actions designed to open up opportunity and strengthen the economy.

The particular actions undertaken by the state in the 1930s were aimed at those parts of society where opportunity was most blocked — health, housing and education, certainly but also farming, music and the arts, scientific research and trade.

The 1930s welfare state was aimed at the spirit of the nation.

The Planning Council, in its laudable focus on trimming Government spending, has hardly diagnosed blocked opportunity in the 1970s and 1980s. And so it defines the welfare state too narrowly as the existing social services — health, education, law and order, and income maintenance.

Furthermore, the Planning Council's report does not say what effects improving and trimming these services will have on the economy. The report makes virtually no connection between expenditure on the social services and economic directions for the 1980s.

The second basic point my Dad understood about the welfare state was that while it increased security for all, it was aimed particularly at people who were the main casualties of society.

The reasoning was that if their fear and insecurity was removed, their confidence would be strengthened and they would become dignified self-reliant human beings as well as productive workers.

The most vivid practical symbol of the early welfare state's objectives was in housing for the poor. The houses were not cheap and jerry-built, located in sprawling suburban deserts — the most glaring outward sign of the decay of the modern welfare state. They were well-built, as my father observed, and planned to fit into lively communities.

Amazingly, in a report supposed to be about social policy, the Planning Council's document contains no analysis of the people who have been losing out in recent years, and no comment on the malaise of the spirit in our community.

The poor and dispirited today — who get least from "free" health care; who pay the most, relatively, for food and housing; for whom "free" schooling was often a bitter pill of failure; whose lost, beaten kids on the street most often go to borstal or mental hospital; who will die before they can enjoy more than a year or two of superannuation; but whose tax has increased from about 8 per cent of their earnings in 1968 to 22 per cent in 1978 — these people will not see their plight sketched in the Planning Council's report.

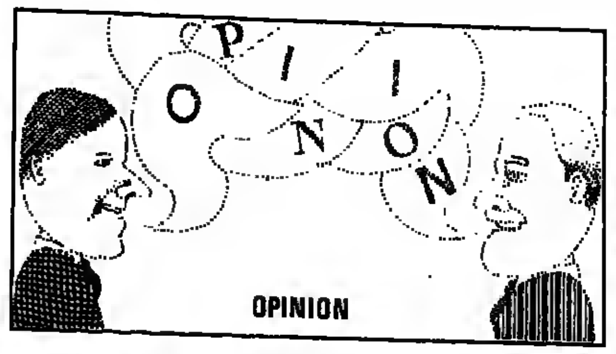
Any re-thinking about the welfare state in New Zealand must take account of what has been happening socially. The Planning Council has shown that state spending has increased — in some of the social services. Housing which experienced a decline of state involvement, especially in the 1960s, is not mentioned.

But the Planning Council has not revealed the irony of state spending on health and education, which is that more and more spending has gone to the well-to-do.

Access to medical services changed as the doctors moved away from the countryside and the inner-city areas. They never moved into the poorer outlying suburbs.

At the same time, private medical insurance schemes were begun during the 1960s, leading to development of private medical hospitals. In Canada such changes have been shown to have a detrimental effect on the public health facilities, and the same thing is suspected of happening in New Zealand.

Certainly by the 1970s surveys were showing serious effects of the two developments — the greater distance from facilities for the poor, and the greater protection available to the well-off.



OPINION

A Health Department study of mothers who had just given birth in the Wellington area in 1972, found substantial differences in the quality of care received. Mothers in the poorer areas received less medical attention, both before and after the birth of their children, than those in the more affluent suburbs.

Poor people furthest away from facilities were the worst off of all.

The survey of the aged undertaken by the departments of Social Welfare and Statistics in 1974, demonstrated that Government provision for the sick elderly had become insufficient. Those who had no resources other than the benefits provided by the state, were the worst off.

Access to education has followed the same pattern. State spending has gone increasingly to the universities over the past 25 years, so much so, that proportionally less has gone to primary education.

But whereas all children go to primary school, the sons and daughters of the affluent have increased their share of the available places in the universities. At the same time, the proportion of children from manual worker homes declined.

This is not due to there being fewer manual workers in the population. In fact, since the mid-1950s, the proportion of unskilled manual worker jobs has increased.

At the other end of the educational spectrum, pre-school, the same pattern is discovered. In his 1975 book, Who Gets to Pre-School, Dr David Barney shows that kindergartens and playcentres have been overwhelmingly used by children of the more well-to-do.

We can see, then, that the Planning Council, in drawing our attention to the great growth in state spending on the social services, has obscured an important aspect of that spending: that it has been marked by growing inequality of delivery.

Perhaps this is one of the reasons why there have been steady increases in those signs of social distress which the welfare state was designed to remove — on the one hand more crime, mental illness and no improvements in physical health, and on the other hand a decline in economic productivity.

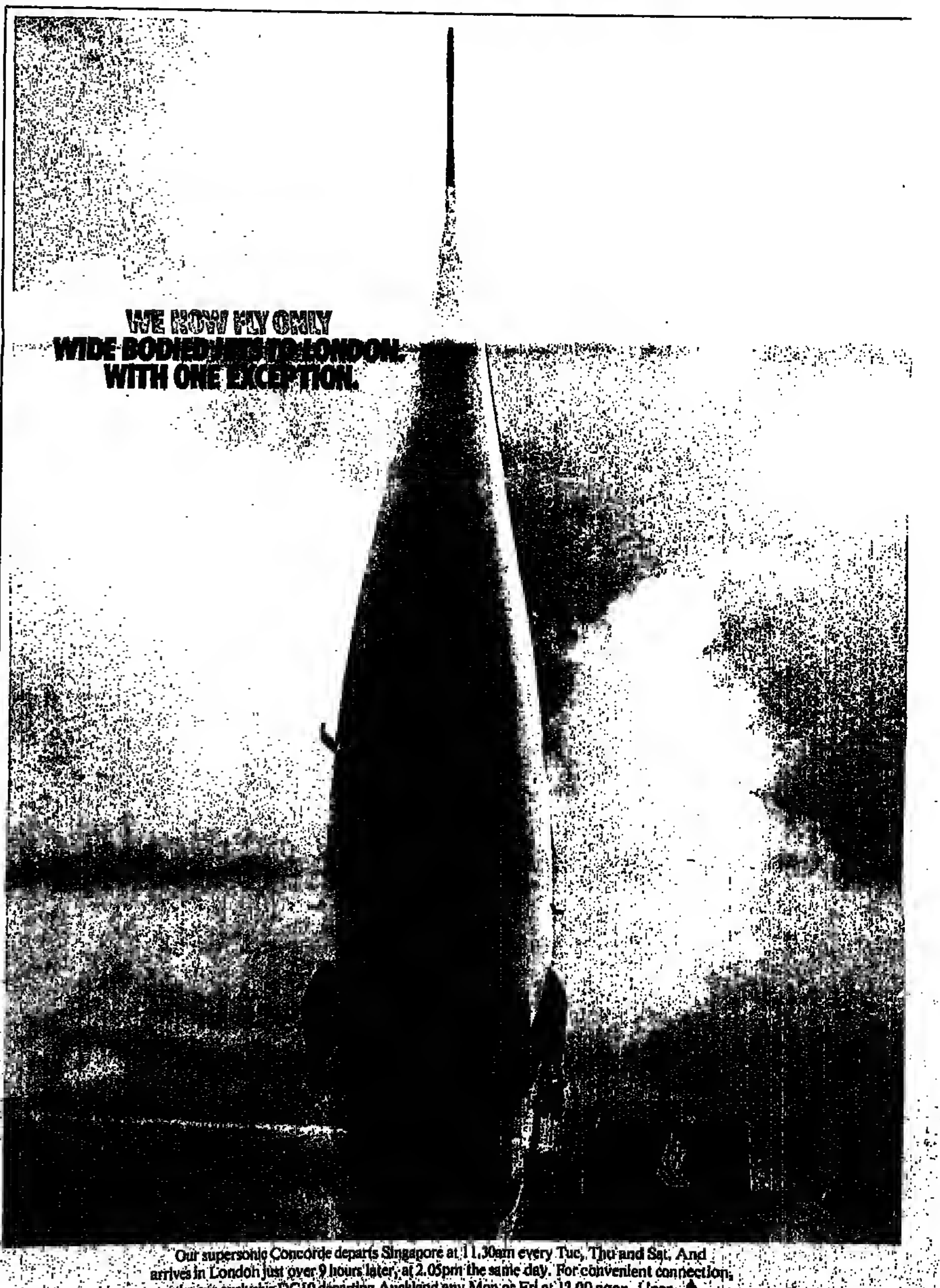
The solution has become part of the problem.

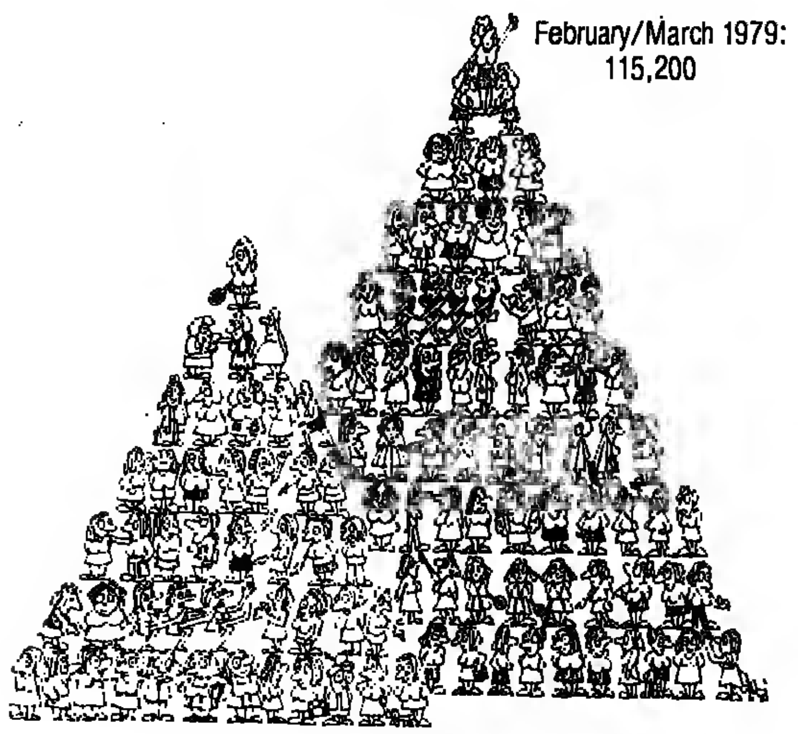
The Planning Council may be correct in suggesting that the renewed welfare state be marked by lower costs. Whatever is spent, if it is not on the right targets, it will not have beneficial effects.

The most important target for the 1980s, as nearly half a century ago, is surely the spirit of the nation.

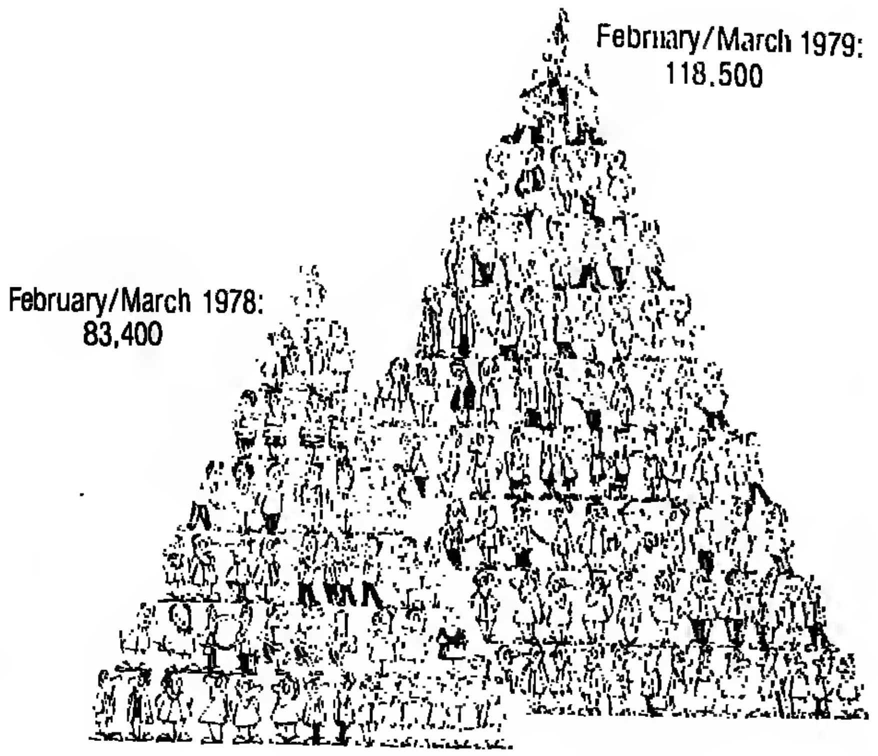
The most dispirited in the society will need more attention than the Planning Council gives them; re-allocation will be as important as reduction of spending overall.

But further than that, revitalisation of spirit in the social areas will require consideration beyond health, education, law and order, and income maintenance.

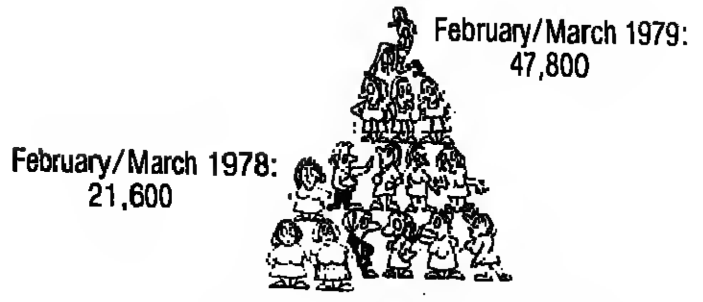




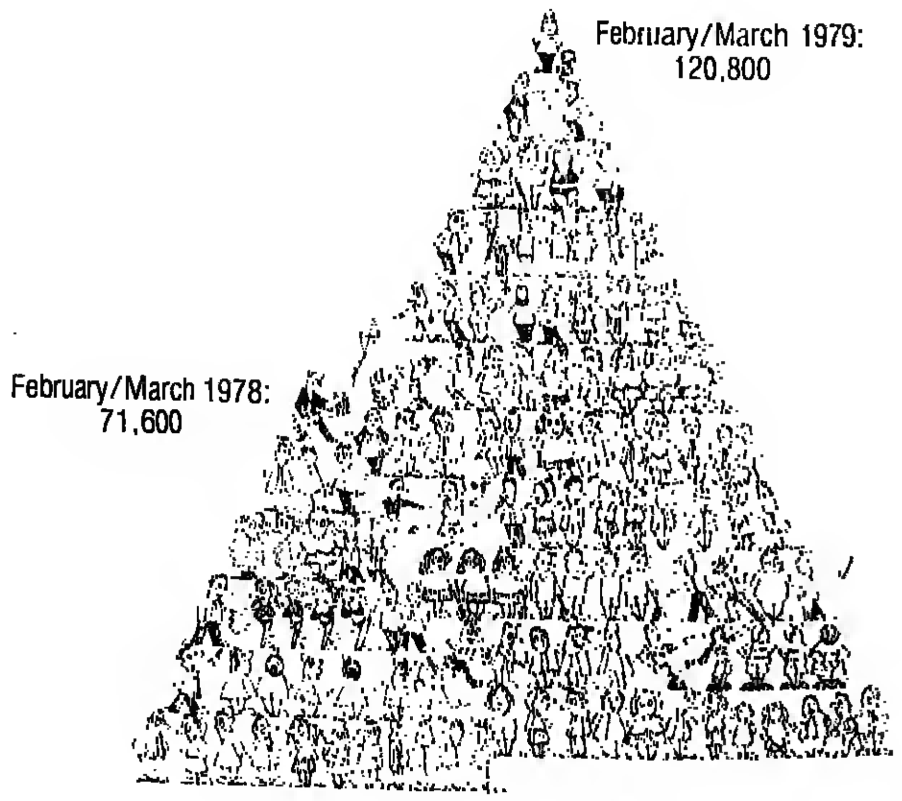
Zone 1: 6-10pm: Females: 20-54 years.
Average thousands.



Zone 1: 6-10pm: Males: 20-54 years.
Average thousands.



Zone 2: 5-6pm: Females: 20-54 years.
Average thousands.



Zone 2: 4.30-6pm: Males/Females: 10-19 years.
Average thousands.

Knock back the knockers

RIGHTLY or wrongly, New Zealand media have always outlawed knocking copy — advertisements which disparage or denigrate a competitive product or service. Though it's easy to lay down the law, it's not always so simple to interpret it, as two different arms of BCNZ have found. As a result, a 30 second TV commercial for Radio Windy has assumed the proportions of a full scale dramatic scenario.

The story so far. Lindsay Yeo, 2ZB's morning star, takes off on holiday to the wild blue yonder. Radio Windy, climbing in the ratings and seeing a situation to its advantage, decided to promote its breakfast session on TV2 no less. Rob McKay, general manager, writes a script and instructs TV2 to produce it which it does. Windy asks its agency to buy time. No availability. Trys TV1 — greater cost but the opportunity beckons. A total of 11 spots is reserved. On the morning of the day the first spot is due to be broadcast, McKay hears by a circuitous route that the commercial is not acceptable to TV1. It is in breach of Rule 1.7. which says: "An advertisement should not attack or discredit other products, advertisers or advertisements directly or by implication." No broadcasts, then or later. TV2's production is not acceptable to TV1.

The commercial was described this way to Admark. The opening scene shows a girl just waking up who says: "For seven years I've been waking up with the same person, but this morning he's not there. Who can I turn to?". There is a shot of a radio dial which does not show any specific frequency and a male voice over says, "Psst! Windy's changed — why don't you?" The female voice says "OK" as the video shows Dave Mahoney at the panel and the voice says, "I've discovered Radio Windy and Dave Mahoney — why don't you make the discovery tomorrow morning? Don't wait another seven years." Then the Windy logo.

Rob McKay refutes the ruling that the commercial is disparaging and describes the action as "bureaucratic suppression". The station is seeking "further independent clarification".

Radio Windy has also officially complained to the Audience Research Advertising Council about the BCNZ sampling area. By including areas outside the urban Wellington, the top of the South Island for example, which are not in the McNair survey, it gives an advantage to stations 2ZB and 2YA with their greater signal strength though covering towns and shoppers of no interest to the Wellington retailer, Windy claims.

Milk goes commercial

ADMARK

PRESUMABLY, "Milk it instead" makes crystal-clear sense to someone, hopefully the target audience. Advertising often makes impertinent use of the English language with good affect. The original version of "Fresh up with Seven Up" provided a lively neologism by verbalising an adjective.

But "Milk it instead" has an existing built-in meaning that has to be disposed of first before you get to what we think is the intended interpretation.

The television commercials present an audio-visual scurry difficult to define. The one which shows a dribbled chin and an animal drinking from a cocktail glass is obviously not destined to win the aesthetes' academy award this year.

We wondered why such a jumble of concepts was harnessed to the fairly rudimentary idea of selling milk as a beverage. Then we think we tumbled across a possible explanation. It could well have been inspired by the unshackled zeal of Milk Board chairman, E E Ogier, who wrote an article for the board's journal, Town Milk, from which we quote:

"There is a need to get milk out into drinking situations," he wrote. Very sound. You have to provide the milk before people can drink it.

"No one product form will provide the increase in consumption that will halt the downward trend and reverse the decline." No doubt about that. If you want to both halt the downward trend and arrest the decline at the same time, you've simply got to increase the consumption.

After referring to the millions spent in advertising alcohol, tea and coffee and soft drinks, Ogier described the advertising: "The new campaign is a collision strategy heading into what has been off-limits territory. It is a big league field and the milk industry will be up against stiff competition." It seems that the chairman and his cohorts have arrived at a meaningful construct which, solution-wise, could provide a rewarding situation response to the dilemma of the beer, coffee, tea, soft-drink, milk interface in the marketplace.

Flair takes in subtlety

When they lose a big account, most advertising agencies will clam up on the fact and lament their loss behind closed doors.

But part of the adman's art is turning adversity to advantage, or at least casting the best light on a bad break.

So full marks to the New York agency Tinker Campbell-Ewald Inc. It lost the huge British Airways account last month and rather than burrow in self pity, took a full page in the New York Times to tell the world that "the ad agency that helped British Airways reach new heights is now free to work with another airline".

If there were any hard feelings between British Airways and their former advertising agency, Tinker Campbell-Ewald's ad didn't let on. Three-quarters of the full page carried a photo of "a certain large and lovable English Gentleman" (Robert Morley) holding a model of a British Airways jetliner aloft.

Morley and British Airways have become synonyms in the American traveller's consciousness.

British Airways former ad agents went on to plug their former clients further: "In the 22 years we handled the British Airways account their business went up and up. Until it climbed higher than the major competition with their bigger ad budgets.

"In fact, from 1971 to the beginning of this year, British Airways' share of market between the United States and the United Kingdom rose from 26 per cent to well over 35 per cent."

Then came the message from Tinker Campbell-Ewald: "So, while we'd like to wish British Airways the best of luck, we're ready to start working with another airline that wants to move up in this world."

And who said the Americans could never master the British art of subtlety without losing their American flair?

From September 1, British Airways will put its advertising through Foote Cone and Belding.

In New Zealand, Illots will continue to handle the account with total billings estimated at something like $200,000 a year.

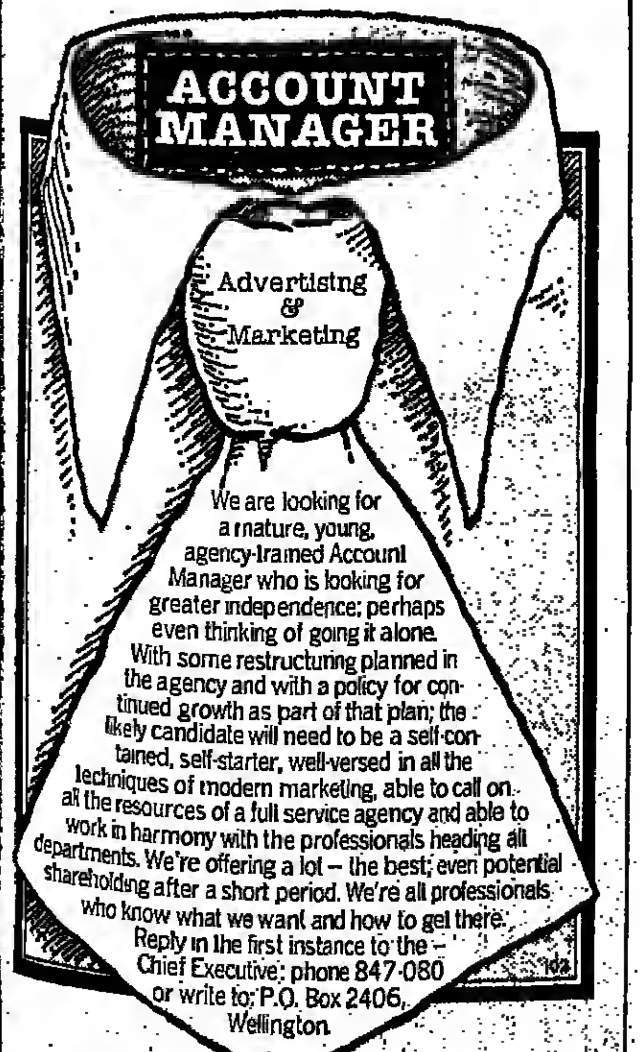
Golden oldies hold cash

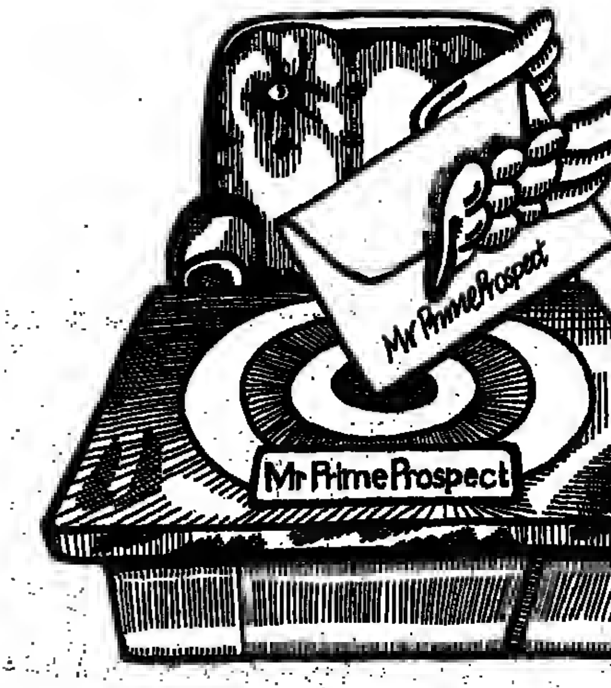
IN THE radio ratings war, no commercial station is anxious to flaunt the listening allegiance of our senior citizens, or the "geriatrics" as one station confusedly called them.

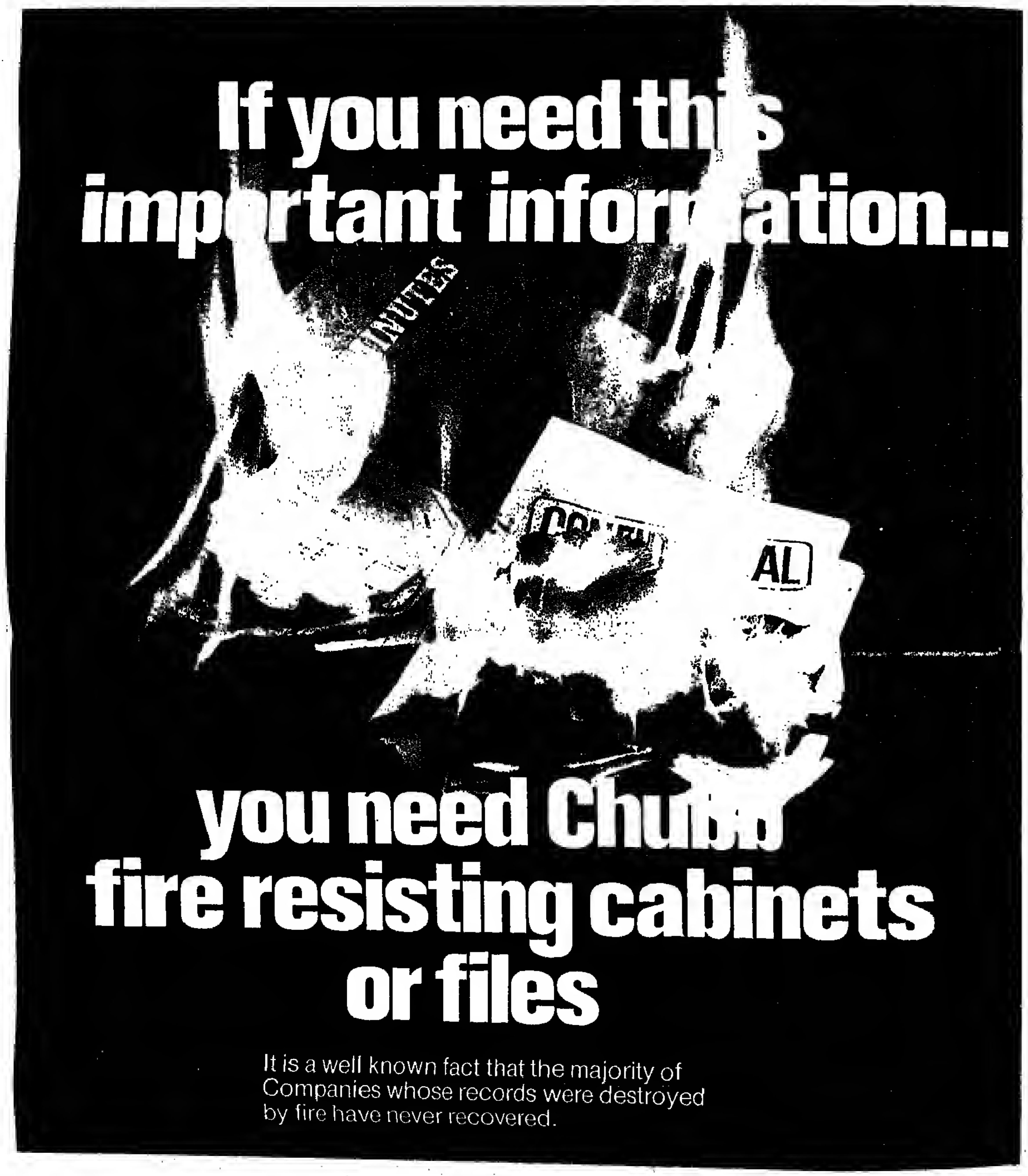
But all of them are happy if they can claim dominance in the "primary consumer" market, or the 10-44 age groups. But doesn't this include the young families who, supposedly, are under the greatest stress to make ends meet? And to buy their first homes?

In the meantime those decadent, infirm old people aren't doing so badly. (See Golden Oldies, Admark, April 11).

Of the 370,000 people over 60, no fewer than 52,000, or one in seven, managed a trip overseas last financial year. Now if we were travel agents looking for prospects among radio listeners, we'd be reading the 55 plus ratings pretty closely.







Waring wants Cabinet posts for outside experts

WE REPRINT here sections of an address given by Marilyn Waring, Government MP for Waipa, to a seminar on democracy in Auckland earlier this month. Waring was asked to speak on possible changes to our political institutions over the next 10 years.

Our selection covers her thoughts on the Cabinet.

CABINET has been subjected to rather less objective or constructive criticism than the other institutional arenas in the political process for one particular reason — few commentators can gain accurate information as to the reality rather than the ideal of how Cabinet functions. The preserve of collective decision-making seems to be taken by former Cabinet members with them to their graves, so that little information emerges even from those now removed from the Executive.

The basic premise and pragmatic dogma of the Cabinet is that of collective responsibility. This has come to operate as a condition of Cabinet membership, the theory being, that all major policy issues should be discussed freely without fear or favour and that members of Cabinet should thus accept the mood of the majority and keep quiet or resign.

It is further argued that Cabinet members must be united to a clear line of policy because they "represent the majority". But the flaw in that argument is more than adequately demonstrated in any comparison of voter percentage cast with seats in the House.

Austin Mitchell saw Cabinet as the embodiment of the party in power...its real role being that of directing the centre of Government.

The general functions of Cabinet as seen by Professor Keith Jackson are: the final determination of policy to be submitted to Parliament; the supreme control of the national executive in accordance with policy endorsed by Parliament; and the co-ordination of the activities of departments of State.

Cabinet's performance is very much determined by the attitude of the Prime Minister. His concern to remain in office, both personally and politically, will condition his judgment in the selection of his Cabinet (in a National Government) and-or the allocation of portfolios (in a Labour Government). In the British-based Cabinet system followed by New Zealand, Prime Ministers are influenced by staying in power.

Cabinet must by convention face criticism for its joint conduct of the business of the State, and it is not unfair to say that it is the record of Cabinet rather than the individual records of members which will determine the result of the next election. Or at least (and it's the same thing) the members of Cabinet believe this to be the case.

Thus Cabinet operates continually in the apprehension of political consequences of debate in the House or of publicity outside — a powerful united executive on one hand and a band of politicians eager to retain the good opinion of the community on the other.

The last major restructuring of Cabinet occurred under the first National Government in 1949. Guided by the then Secretary to the Cabinet, Foss Shanahan, the present Cabinet paper system emerged.

Present Secretary to the Cabinet, Patrick Millen, when contacted to comment on past or proposed changes to Cabinet structure, said that he was "blissfully unaware of any changes in Cabinet procedure in the last 30 years and blissfully unaware of any changes in the near future".

Inquiry has revealed that recently the length of sittings tend to be between 6-7 hours, and that a strengthening in the number of permanent Cabinet Committees from nine in 1966 to 15 in 1979 has seen more preparatory work completed outside the orbit of the full Cabinet.

In the last 15 years, the chief criticisms made of Cabinet have been strikingly similar, regardless of the commentator. The Executive's control of secrecy controls collective responsibility.

The political executive has devised a confidential and interdependent decision-making system in order that it may survive contests in an arena devoted to exposure and the public debate. Information is powerful, and Cabinet has succeeded in concentrating power. There is, however, room for doubt that power is employed in the most effective manner.

There has been frequent criticism over the years of the public demand for members of the Executive to turn their hands to the populist bridge-opening, cocktail circuit round of engagements.

Coupled with this have been the requirements that ministers spend more time with Departments, with some regard being had for the British system where Ministers have offices in the head offices of the portfolio responsibilities. Despite the good intentions of such a suggestion, the confinement of my forward view to the 1980 s makes the suggestion of any change in this area impracticable for a number of reasons.

The first relates to the current dispersal of departmental head offices throughout Wellington and the movement of various divisions of departments to other parts of New Zealand.

The second reason relates to the multiple portfolio allocations made to each individual member of Cabinet and the difficulty imposed by deciding where the ministerial office might then be placed.

Criticisms are also made of the time ministers must spend in Parliament. The demand for the Government to retain a quorum of 20 in the House has some effect on Ministers' time, but although the New Zealand Parliament has been designed as a working rather than a debating chamber, it is not an easy environment for concentration. A change in the standing orders on the quorum would have a healthy effect on this problem.

While there are occasions when all ministers should be at their places in the House, there are others when Parliament can carry on its business admirably with many of them absent. This is in fact the practice in other Parliaments where it is appreciated that ministerial duties are such that it is unreasonable to expect ministers to spend their whole time in the House.

The two major criticisms of Cabinet in the past are closely entwined: the lack of people to select from for positions; and the lack of expertise among those individuals. Whilst one Prime Minister has commented to me on his need to have "tailenders" in his party, Sir John Marshall has frequently spoken of increasing the number of representatives in Parliament to give the Prime Minister a wider choice to ensure a competent complement in his Cabinet.

The formula for Cabinet selection is not the elected winning majority but the size of the Caucus the winning party had in the previous Parliament, less retirements. As well there are constraints of age, poor health, alcoholism, and personal animosities.

Thus in 1975, Prime Minister Muldoon had to choose a Cabinet of 20, two whips, a Speaker, Chairman of Committees, and three Under-Secretaries from the 32 members of his team in opposition, less four retirements, plus two MPs who had been returned to office. Twenty-seven out of 30 placed him in a critical non-choice situation.

He was then stuck with his colleagues until death, sickness, or other political shocks removed them, reflecting the reality that there are only a few able people in any party and a Cabinet of 19-20 exhausts the available supply.

The lack of choice for Cabinet also acts as a restraint on the power of dismissal. It is interesting to note that in selection of her Cabinet of 22 the newly-elected Conservative Prime Minister of Britain, Margaret Thatcher, had a choice from 339 MPs.

The restricted pool of talent from which Cabinet must be drawn is further demonstrated in the following illustration of the choice available in 1975: Farmers, 13; accountants, 4; managers-company directors, 4; journalists, 2; lawyers, 2; retailing 2; plus one civil servant, one consultant surveyor and one member of the armed forces.

In addition to the obviously major technical and information gaps in the group to choose from, there were no women, no representatives of any Polynesian or Maori culture, and no one under 40.

An important consideration in portfolio allocation must then have become placing some ministers in portfolios where they could do the least damage.

Their lack of knowledge in so many fields places ministers in difficulty when evaluating departmental advice on technical or economic policy, and in evaluating the quality of advice they receive.

They may be in a strong position only when technical experts disagree, thus ensuring they have all the information. It further makes a mockery of the question of ministerial responsibility, in the sense of a minister being held accountable for all the actions undertaken by personnel within departments for which he is responsible.

The situation is even more troubling during periods of ministerial ill-health or overseas travel. It means for example, that the second Cabinet meeting in May 1979, which dealt with the major appeals from departments on their budgetary allocations for 1979, was attended by only 12 ministers and one of them, Derek Quigley, was then acting in eight portfolios in addition to his own five portfolio responsibilities.

When one peruses Derek Quigley's weekly timetable, and contemplates a total portfolio responsibility of 13, there is certainly time for some change. It demonstrates only too well the disproportionately heavy burden that can be placed upon a strictly limited number of able ministers.

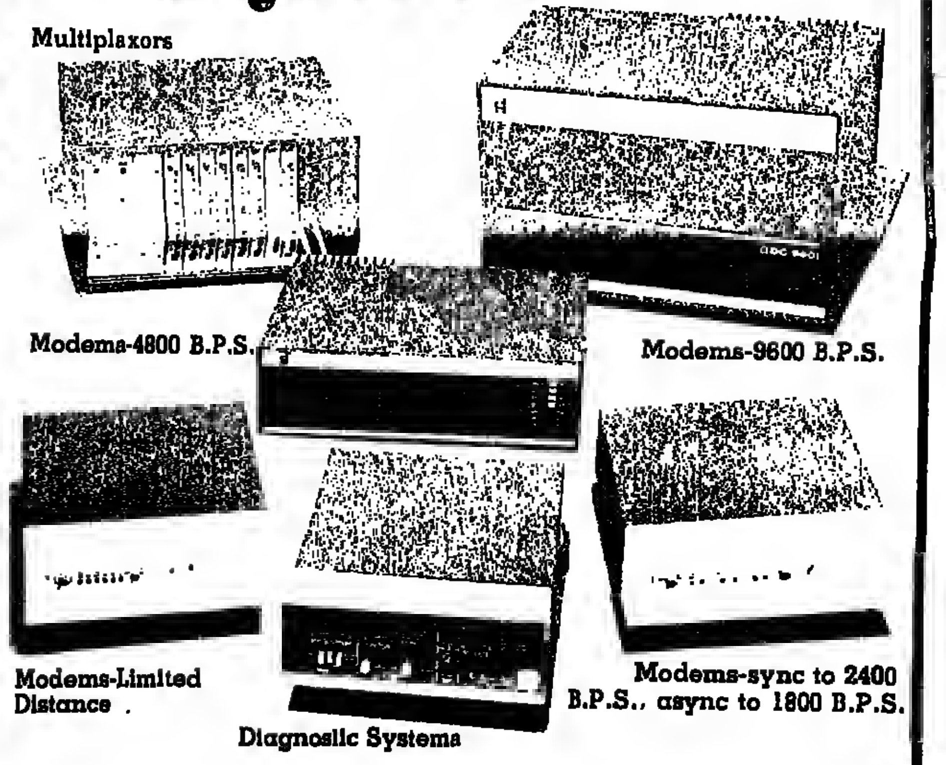
(Waring said she agreed with Canterbury University political scientist Nigel Roberts who had written that the quality of Cabinet ministers in New Zealand was poor and that bringing non-MPs into the Cabinet would benefit both the Cabinet and Parliament.)

Such Ministers would be entitled to attend Parliament and to address the House during debates as often as they desired, provided they abided by standing orders. I would envisage that in practice, no more than half a dozen ministers would be drawn from outside Parliament, this being probably the maximum number required to ensure an absence of tail-enders in Cabinet.

I do not accept the common argument that such a move would provide for remoteness. I similarly do not accept that such appointments would be any less answerable to the public. The public must accept power and the self-preservatory nature of it. Regardless of who is in Cabinet, power resides there in spite of the idealism of power residing in the electorate.

No Cabinet regardless of method of selection of appointment will surrender the exercise of final decision-making responsibilities.

Appointments would carry with them the understanding of the right of the Prime Minister to "hire and fire". Similarly, an awareness that ministers' actions might be severely criticised, even by the Government members in Parliament, could only be healthy for both institutions. The technical, economic, administrative skills, so desperately needed, might be found. A truly representative contribution from other than white, middle-aged, middle-class males could form part of government, even if only through tokenism.



Cuts to doctor intake cure only balance sheets

by Belinda Gillespie

HEALTH Minister George Gair must have welcomed the Committee on Medical Manpower report that doctors are going to be thick on the ground from now on.

Ever since his new Cabinet appointment, Gair has been applying himself to the tricky task of cutting back on health spending without harming anyone's health.

When health priorities are measured in cost-effective terms, it has been said, "the weak and the minorities go to the wall just as surely in a bureaucracy as in a large-scale business. The utilitarian arguments which define priorities in terms of the greater good of the many imply a hopeless message for the few".

Cost effectively, people prone to sickness who live a long time and earn little have a negative value in society. Logically, the only solution is the ultimate one: eliminate them as soon as possible.

Without going that far, the reported over-supply of doctors, and the recommendation that the intake of medical students be cut by 25 per cent has given Gair the opportunity to make considerable savings.

The projected output of medical students from Otago and Auckland medical schools next year is 248.

Each doctor costs $60,000 to train, which means saving an extra $3.7 million over the training period for a kick-off.

On average, the clinical decisions of each GP amount to about $100,000, and each specialist about $200,000 a year.

The Medical Manpower Report calls doctors "the gatekeepers in the health system".

In a publicly funded health system, it points out, keeping down the input of doctors to the system is one of the few ways of controlling health expenditure, which relates directly to doctor numbers.

Apart from the basic medical training, specialist training and continuing education make doctors expensive.

Each new doctor means more services, more drugs, more equipment, more buildings, and more supporting staff.

The committee's studies show that if things go on as they are, the ratio of doctors to population will double by the end of the century, from one to 719 now to one to 387.

The 6.7 per cent of GDP that New Zealand spends on health is not as much as the United States and Sweden — 7.4 per cent — but Gair said the Government has no wish to fly any higher.

As incomes rose in the 1960s, public and professionals alike clamoured for more doctors, in the belief that the greater the investment in medicine, the more disease would be conquered and health problems solved.

Worldwide, the trend has been the same. Higher incomes meant increased spending on health care, with an increasing proportion of it funded from the public purse.

Cost control becomes impossible when "neither the provider (the doctor) nor the consumer (the patient) is cost conscious and where a third party (usually the government) is required to pay but not intrude . . ."

Medical Manpower planners say that emphasis will shift away from hospitals to health care in the community, with a team from a variety of disciplines contributing. Evaluation of services will become more acceptable, management performance will improve and cost containment efforts will continue.

Need for doctors can't be known in isolation from other workers and developments within the health service. The committee has called for national strategies and objectives in the health field, so that medical manpower can be planned within a broader framework.

People in isolated areas with no doctor, or those on a waiting list for the attentions of a specialist are not impressed by the statistics which point to a surplus of medicos.

Doctors, like the rest of the well-heeled middle-class, want to live in congenial suburbs and work nearby. They have a distaste for certain specialities — anaesthetics, pathology, geriatrics — which leave these areas permanently short.

"Increasing the supply will not solve the distribution problems," says the Medical Manpower report.

"All that would happen would be overcrowding of doctors in popular geographical locations and in popular specialties."

Controlling the immigration of doctors is another way of keeping their numbers down. With a simultaneous over-production of doctors in many developed countries, and stricter immigration controls, there could be a sudden jump in the numbers wanting to come to New Zealand.

Predictions as to requirements for doctors are notoriously unreliable. Planners 20 years ago did not foresee the increase in demand that would come in a time of prosperity, rapid population growth, and expanding medical technology.

The results of their underestimates was a shortage throughout the 1960s, and eventually the "Williams Report" of 1970, which concluded that more doctors would be needed.

Unforeseen at that time was economic recession, zero population growth, and huge jumps in health costs.

Dr B G Jew, chairman of the New Zealand Medical Association, says that the association's main concern at this stage is the prospect of unemployment for undergraduates and doctors now in hospital training.

The general practitioners, however, have made their own study, and come to different conclusions.

One J Broadfoot has made claims in the latest issue of GP that an hourly rate for doctors in general practice is $2.50.

Speaking of the "surfeit of doctors who are supposed to be mopped up by entering general practice," he claims that it would be "sheer madness" for a young doctor working in a hospital to enter general practice, with added responsibility and hours of work as well as lower financial returns.

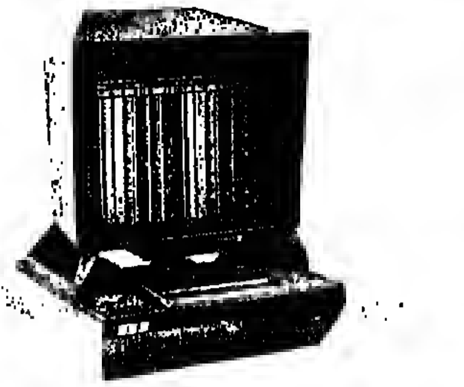
By the time the FOL has achieved the remit for a 3[illegible]-hour working week, they claim that GPs may have decided to cut the hours by a third, raising the numbers required accordingly.

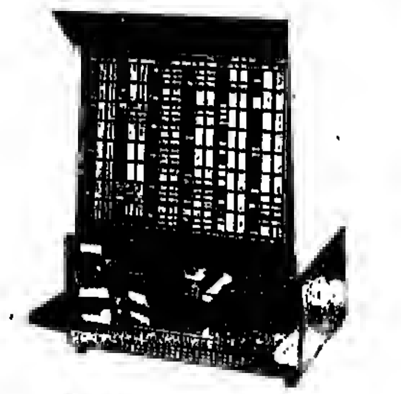
Doing their own sums, they conclude that "if all students graduating till 1986 entered general practice there would be a shortage of almost [illegible] GPs".

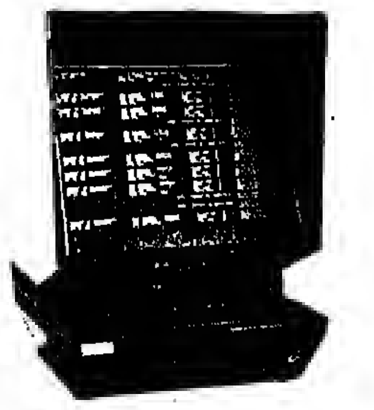
A radical rethink of the system, in which the general practitioners maintain they are presently unpaid for one third of the time they spend seeing patients, is called for.

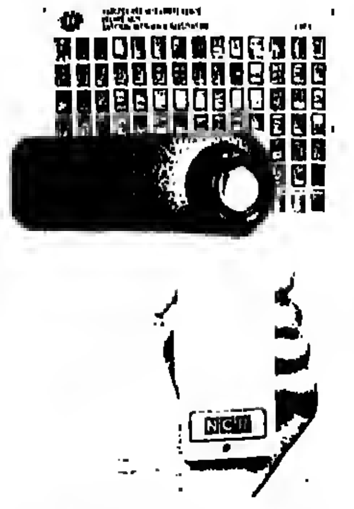
While doctors continue to insist on their positions as "leaders of the health team", and resist any suggestion that appears to undermine this position or threaten the "fee for service" system of payment, it is difficult to see how calls for long-range health strategies can be answered.

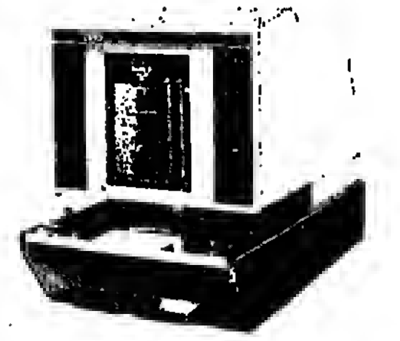
Ad hoc measures in response to apparent financial benefit — such as immediate cuts in student doctor intake — may help balance the books but seem unlikely in the long-term to improve the delivery of health-care for the New Zealand population.

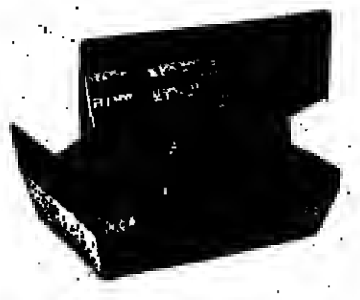












Sales tax takes spin out of spinning wheels

by Warren Berryman

THE manufacture of spinning wheels — a small but exemplary export industry — has become another sales tax victim.

Most New Zealand spinning wheels are exported, earning between $1.3 and $1.5 million a year in foreign exchange. But manufacturers say they depend on the domestic market to carry them through the ups and downs of exporting.

And the domestic market is price sensitive, they claim. The 10 per cent sales tax threatens to force some spinning wheel and hand-loom manufacturers out of business.

A spinning wheel, made almost entirely from local materials, is classified for sales tax purposes in the same category as imported sewing machines.

The 16 firms involved in spinning wheel and hand-loom manufacture are banding together for the first time, to present a united front to fight the tax, or have their product reclassified.

They are seeking the support of the Manufacturers' Federation, the Export Institute and the Wool Board.

The spinning wheel industry combines almost all the criteria prescribed for New Zealand industry by Government and independent economists.

The spinning wheels have a worldwide reputation for price and quality.

This quality reputation, combined with a flow of knowledge from a large body of home handicraft enthusiasts to handicraft circles abroad, helped put New Zealand on the map and led to a welcome spinoff in the export of hand spinning wools and accessories.

Locally made spinning wheels are between 95 and 99 per cent New Zealand content.

New Zealand has the world's biggest manufacturer of spinning wheels, Ashford Handicraft, of Ashburton. This firm makes about 75 per cent of all the spinning wheels produced here, and exports 80 per cent of its total production, earning just under $1 million a year for New Zealand in export sales.

The spinning wheel industry generally exports more than 70 per cent of total production.

There are only about 100 people employed in the industry but their export performance shows New Zealand has a good comparative advantage in world markets.

Poore has been making spinning wheels for 14 years. He started as a cottage industry and now employs eight people.

He exported 25 per cent of his production (some 800 machines) last year, earning $25,000.

Poore's wheels are made from rimu. He estimates that they have more than 95 per cent local content.

If the sales tax stays, Poore says he will shut down.

"The 10 per cent sales tax would put us out of business. It will be easier to draw the dole. I am coming up 60. There comes a time to ask if it is really worth it?"

"I have a DFC loan. Government helps me with one hand and knocks me on the head with the other," said Poore.

He has been in the vanguard of attempts to rally support against the tax.

He has been phoning around the industry and said two other firms plan to shut down in the wake of the sales tax announcement.

Aucklander Alex Bailey runs Sleeping Beauty Spinning Wheels. He employs eight people, makes 3900 wheels a year, and exports 2300 of them.

The overseas market has been tough because of New Zealand's overvalued exchange rate and rising timber costs, he said.

The 10 per cent sales tax was just one problem. "We will survive, but it won't be easy — a lot won't".

Bailey said he feared the tax would make handicraft a rich man's hobby, taking it from the grass roots.

"Four to five years ago there were only five manufacturers producing spinning wheels. Now there are about 30 — half of whom are only home hobbyists. The hobbyists are so small they do not pay the sales tax, and can undermine the viable firms," he said.

Ashford Handicraft, of Ashburton, is the world's biggest producer of spinning wheels, employs 40 people and have been in the business for 40 years.

Ashford's export manager, Richard Ashford estimated his wheels were 99 per cent New Zealand content.

Ashford won high priority status from the Department of Trade and Industry as well as an export award. Last year it manufactured about 12,000 wheels and exported 10,000 of them.

Ashfords is located in a regional development zone.

Despite his company's impressive export performance, Ashford said the firm couldn't afford to lose the home market.

Ashford's will try to get Government to admit it acted hastily and reconsider — perhaps to reclassify spinning wheels out of the sales tax bracket, he said.

Otherwise the company might have to cut back on production, he said.

AS a revenue-gathering measure, the sales tax on spinning wheels appears somewhat suspect.

The Department of Statistics doesn't have production and export figures for spinning wheels.

But a rough estimate puts total production at about 18,000 wheels a year. At a bare minimum, 12,600 of these would be exported, leaving only 5400 wheels sold locally subject to the sales tax.

About half the wheels sold locally would come from home hobbyists, who would not pay the tax.

So the total tax revenue to Government would probably be little more than $10,000.

Deduct the cost of collecting this $10,000 in tax, and there wouldn't be enough money left over to pay the dole to half the people put out of work by the tax — much less compensate for the loss in export earnings and company tax on the firms forced to close down.

Paper mountain buries Lotto plan

by Ree Mazengarb

THE wheels of the bureaucracy take a long time to get into motion.

Remember the "Lotto" game? — The controversial lottery introduced to some Australian states last year?

The initial enthusiasm of introducing the game here seems to have waned. Or perhaps the racing lobbies, or other groups which oppose it, have persuaded Government to drop the idea.

An Internal Affairs Department officer last week rejected the suggestion the project had died a slow death:

"No . . . It's dormant, a little different from dead."

Dead, dormant . . . whatever its condition Lotto is buried beneath heaps of paper.

In September last year, Internal Affairs Minister Allan Highet gave the go-ahead for the investigation into the feasibility of a national numbers game based on the Australian Lotto.

Sir Patrick O'Dea — first commissioned to undertake the study — resigned from the task following criticism from racing interests. His position as deputy chairman of the Racing Authority was in conflict with the appointment, they charged.

And so in early October, the study became a task for officers within the department.

The officers visited Sydney, Melbourne and Adelaide to look at the systems operating there, and they presented their report to the Minister in early February.

Later a Local Government Committee — chaired by Internal Affairs Undersecretary Ken Comber looked at the report in detail.

Now a further caucus committee has been set up to examine the matter.

Chaired by Comber, the committee will study the same report prepared months ago into the procedures, processes, organisation and management of the game.

It is understood the committee has not yet received its terms of reference. Perhaps that explains some of the delay.

It seems that for some time papers have been quoting officials with these words: "we are far short of a decision".

And until the committee meets, that's where things stand.

Packet-switch comes closer

PROPOSALS by the State Services Commission to implement a packet-switched data communications network of its own, may have brought Post Office implementation of packet-switched services a little closer.

The SSC intends to implement a countrywide packet-switched network to carry meteorological and other data for civil aircraft flights.

Equipment for this set-up, known as the Aviation Fixed Telecommunications Network, has already been selected. The network will include a link to the SSC's IBM 370 machine at the Cumberland computer centre.

It was evident from the beginning of the project that AFTN would have the capacity to handle other terminal networks accessing Cumberland if and when such networks were needed. It became clear that the potential was there for a large packet-switched network taking in not only Cumberland, but also other Government computer centres.

The Post Office has plans to introduce a packet-switched service to New Zealand at some indeterminate date, and clearly it would be to the PO's advantage if future SSC requirements could be accommodated on Post Office links, rather than on AFTN.

Requirement for improved Government networking facilities was likely to arise within the next two or three years, SSC spokesman Dick Wheeler acknowledged.

If the PO had a packet-switched network in place by that time, this would be used, but the option still remained to use the spare AFTN capacity if the PO did not deliver the goods.

Wheeler said PO plans for packet switching "were further in the future before we took an interest than they are now"; but no confirmation of an advance in packet switching deadlines could be obtained from the Post Office as NBR went to press.

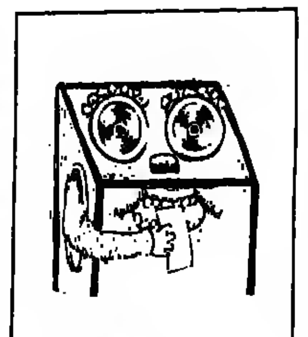
The capability was there on the presently proposed set-up to accommodate the larger network, said SSC senior consultant Brian Quill, but this did not mean that the Government had over-committed itself in equipment should this network not be required.

Obtaining powerful enough equipment to run AFTN meant that there was bound to be a certain amount of unused capacity.

The currently planned set-up will be based on six Control Data Cyber 18-30s. Two will be installed in Auckland, two in Wellington and two in Christchurch, with a seventh kept in reserve for development and maintenance.

About 100 terminals, all over the country, will communicate through the network. These terminals will be either asynchronous models or synchronous IBM 3270 type, but the communications protocol on the main trunk lines will be a modified version of the international standard X-25 protocol.

This design will not tie down other terminals to operating in 3270 mode. Should a larger network be required, the equipment has sufficient flexibility to accommodate other terminal protocols.



COMPUTERS

Performance evaluation

SOME words of United States wisdom on evaluating the performance of computers were given recently by Dr Gary Carlson, of Brigham Young University, Utah, on a New Zealand whirlwind tour.

Originally, Carlson was requested to come to New Zealand to give a three-day course on performance evaluation at Waikato University. The State Services Commission grasped the chance for him to give instruction to its own personnel, and he was asked to give a brief address to all five branches of the Computer Society.

New Zealanders have built up something of a reputation for getting the best out of computing equipment, largely because of the heavy sales tax funding; but Carlson, from an admittedly brief examination of the New Zealand scene, tended to distrust this image.

Practical performance monitoring, he suggested, was probably as rare here as it was in the world at large.

Every company paying $20,000 rental per month or more for computer equipment should be monitoring the performance of its system, Carlson said.

"In practice, even in the United States, with its long experience of computing, as little as a third of such sites did "any serious monitoring".

He said the prime disincentive to monitoring was the feeling that it was an expensive and complicated business. Though a good deal of monitoring equipment was sophisticated, it was not necessary to start at this end of the scale — "the sweep second-hand on a $2 watch is accurate enough to measure printer speed".

Rather than expensive equipment, what is chiefly needed is the right attitude, a commitment to monitoring and improving system performance, reflected in a commitment of manpower to the monitoring task.

One should aim at a thorough understanding of what the hardware is doing, and not simply accept inferior performance as indicating a need for more hardware.

Often, when the additional hardware was installed, the performance improvement turned out to be nil, or less than expected.

When planning for a new piece of equipment, Carlson emphasised, "you should know what performance improvement to expect, and write it down". One's memory, he added, tended to make compromises when it came to comparing actuality with expectations.

Once the user had established himself as a conscientious monitor of performance, it bred an attitude of respect from the hardware vendor.

Practice of hardware monitoring may not be as widespread in New Zealand as Carlson would have liked, but the interest is clearly there.

The main seminar was planned for 65 people and about 100 turned up.

State boosts its ICL kit

THE Government's major ICL computer installation at Trentham is due to receive a massive upgrade. This will make it, at least temporarily, the biggest example of ICL's 2900 series in the world.

Major feature of the $1.1 million enhancement will be the addition of a second processor. Initially, the two will run essentially separately, but later this year, they will be integrated into a "dual" configuration, where tasks can freely be taken on by one processor or the other, depending on the total workload.

The upgrade will proceed urgently, owing to the growing amount of work on the system, and the imminent take-on of new and significant applications. The hardware will begin to arrive later this month, and by July, the two processors are expected to be running in the separate, or "twin" mode. Full dual operation is planned to begin around November.

Installation of a dual processor was considered and rejected as too expensive when the 2980 was installed in 1978.

Approval of the move now did not, in the view of Trentham manager Brian Gibson, indicate any softening in the Government's attitude towards the purchase of computer equipment.

Rather, he said, it probably arose simply from an awareness of Trentham's needs, and of the value of its work.

The centre currently handles processing for Agriculture and Fisheries, Forestry, and Statistics departments and the DSIR. Planned for implementation in 1981 is the large customs terminal network, code-named Caspar.

Availability of the latest version of ICL's operating system and IDMS database software on the new machine will enable systems testing of the Customs work to begin.

Besides the second processor, the Trentham machine also gets a memory upgrade, and more disc and magnetic tape devices.

Approval of the Trentham upgrade naturally leads to speculation on the fate of other hard-pressed Government installations, such as the Ministry of Works' IBM 370-168. Enhancements for these could be in the pipeline.

Govt-laid tracks limit NZR financial freedom

by Colin James

NEW Zealand Railways' financial objectives cannot be set precisely because of Government limitations on its freedom of manoeuvre.

That is the essence of a report by Railways to the parliamentary Public Expenditure Committee, tabled in Parliament the other day.

The Public Expenditure Committee in 1977 recommended an analysis of the Railways' financial procedures to bring them into line with modern financial planning and control techniques.

This had been done, the Railways told the committee, by departmental officials and an outside chartered accountant.

The Railways noted that some of its services were provided for social reasons and would not be provided if the Railways were operating in a fully commercial manner.

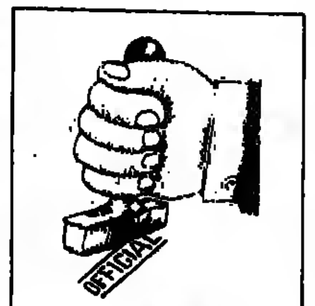
In addition, many services had a mixture of social and commercial aims, "which are generally difficult to disentangle satisfactorily".

The investigating team therefore had to settle for a loose description of the Railways' financial objective:

"Railways' financial objective is therefore to provide the range and level of services required by the Government at least overall financial loss and at the level of rates and fares approved by the Government," the Railways reported to the Public Expenditure Committee.

"It does not seem possible to express a financial objective more precisely than this without it becoming unrealistic and therefore only academic."

The Railways went on to reject the value of any separation of passenger and freight profits and losses.



GOVERNMENT ADMINISTRATION

The two were "managed on an integrated basis". Since managers could not control apportionment of the costs, profit and loss statements obtained by some apportionment formula for indirect costs were not relevant to financial planning and control.

The Railways report pined for the "opportunity to plan and develop our own electronic data processing capacity".

"Where the financial planning and control procedures of the department have not been the same as in similar major commercial organisations it has been largely because of the need to meet Treasury requirements which have been primarily designed for administrative Government departments."

(At present the Railways are required to use the Treasury's computer facilities.)

In general, the Railways told the Public Expenditure Committee, the committee's criticisms of the Railways' financial procedures "stem from a failure to understand that the department is expected to pursue a mixture of social and commercial objectives, from a misguided belief that arbitrary apportionments of joint costs can provide meaningful profit and loss statements and a failure to recognise that, as a trading organisation, the department has been seriously handicapped in its ability to plan its own computer development and is subject to a form of financial control appropriate to administrative departments".

U.S. export market success demands greater pre-development research

by Warren Berryman

NEW Zealand exporters with an eye to the huge American market would do well to drop their traditional producer-oriented thinking and adopt an American market-oriented approach, devoting greater effort to pre-development market research.

That advice comes from Ross Southcombe, director of the Export Institute.

Southcombe has been in the United States looking at American methods of structuring and organising their marketing. He also checked out the sources of market information available to New Zealand exporters.

"When it comes to market information, the United States is the place to get it," Southcombe said.

Information sources included newsletters, bank-operated advisory services, research organisations and databanks holding computerised information that could be tapped into for a modest fee from New Zealand via satellite.

The information process is aided by the American freedom-of-information law, which gives open access to Government data.

And good market information need not be expensive in the United States.

"There is no point in us re-inventing the wheel. The information is there and easily available," Southcombe said.

He said we could do with a basic research library here and it would help if New Zealand exporters were willing to share information and experiences.

American companies put some 10 per cent of their revenue into research before new products are launched, Southcombe said.

Still, because of the intensively competitive nature of the American market, products fail in spite of this pre-launch investment in market research.

For example, an American food manufacturer told him that 90 per cent of food items failed in the marketplace, Southcombe said.

"In New Zealand if something fails it's a disaster. In the United States it's just part of business," he said.

"New Zealand exporters have to become more risk-oriented. They've got to minimise their risks by maximising their research.

"New Zealand exporters know they have to travel. Now they need to be convinced that research is important to save them the cost and effort of being wrong."

Southcombe emphasised that businessmen need not spend much money finding out who their competitors were, what volume of sales were in their product area, what type of buyer they should be shooting for, where they shopped and what distribution options were open.

Trouble is, New Zealand exporters tend to do their business when they get off the plane. They go to see our trade commissioner, who puts him on to four or five potential buyers, and become discouraged when the Americans tell him his product is not saleable.

The New Zealander exporter should have his own information and not rely on the buyer's, Southcombe said.

The average New Zealander will find the United States like one huge duty-free shop.

Not only do the Americans earn double New Zealand wages, but they pay as little as a quarter of the New Zealand price for many manufactured goods.

So how can the New Zealand exporter compete?

Southcombe said the New Zealand exporter should aim for that part of the market outside the mainstream of American mass merchandising — outside the area of price competition aiming for the quality-conscious buyer.

Apart from price, few New Zealand firms are big enough to sell into American mass distribution networks, Southcombe said.

Tax-shy offer insights into kicking the tax-paying habit

by Rae Mezengerb

PETER Clyne, the renegade tax advisor, boasts of past exploits in the non-payment of his own and his clients' taxes.

"I'm quite an unrepentant sinner," he admits. "I have a total lack of scruple. I believe that anything goes, as long as it enables you to retain your property."

The colourful Clyne is not likely to return to New Zealand — at least, not in the short-term. He's a prohibited immigrant.

But he was here, briefly, in May 1976.

"My business in New Zealand involved the takeover by one of my clients of the Commodore hotel chain in Christchurch, Queenstown and Blenheim.

"These hotels, it turned out, were headline stuff. Three or four groups were after them, and one of my client's competitors lost no time in finding out all my history, right from the time I put tacks in my nanny's rocking chair, to my most recent encounters with Uncle Sam's vigilantes", Clyne recalls.

"Within 24 hours, my face became front-page news. Reporters followed me wherever I went, Prime Minister Muldoon took time off to abuse me personally on the evening news, and his Minister of Immigration politely informed my lawyers if I wasn't voluntarily on next morning's 11 am flight from Christchurch to Sydney, I would be arrested and deported".

Clyne's life has been far from normal.

Vienna-born, he emigrated to Australia as a child and graduated LLB from Sydney University in 1948.

He practised at the Bar until 1959, when he was struck off the roll for "professional misconduct". (His fifth application for readmission is still pending.)

Through the 1960s he practised as a landlords' advocate before fair rent tribunals, and owned some 180 dwellings at one stage.

He graduated LLM in 1969. But still without a practising licence, he turned to writing books.

While his creditors began bankruptcy proceedings in 1970, he wrote Adventures in Tax Avoidance.

He held a job as resident magistrate in Zambia for nine months until his previous history caught up with him. He was asked to leave.

He jetted to Zurich and followed four years of fine living in Switzerland and Austria as an international law consultant, tax planner and author.

More books followed, including How not to pay Your Debts, and A Handbook For Scoundrels?

During this time he told the Wall Street Journal that his major activity was laundering money on which no tax had been paid.

When he flew to the United States in 1975 to help clients reduce their taxes and move their money out, the Internal Revenue Service was waiting. Investigators set a trap and got evidence to lay criminal charges.

Convicted and sentenced to three years jail, he was released on bail pending appeal.

He skipped to Canada, and from Canada flew to New Zealand.

Turfed out again, he was stuck in Australia with an undischarged bankruptcy.

Since then, he has publicly offered to help clients open secret bank accounts in Vienna by smuggling currency out of Australia and to show how to dodge or delay debts, especially to finance companies.

He has written yet another book on his favourite topic: How not to Pay any Taxes — A Handbook for Tax Rebels. It describes in detail many of the legal (and not so legal) ways of outwitting the taxman.

"Paying taxes is very much like alcohol, tobacco, heroin, or wild women. It is a habit . . . costly, addictive, soul-destroying, and unnecessary . . ." he writes.

"So about 15 years ago, I kicked the tax-paying habit".

FEEL there's something morally wrong about having to pay taxes? Complain about your hard-earned profits being used to keep the non-profit-oriented bureaucracy functioning?

Meet Wellington businessman Henry Newrick, originator of New Zealand's first offshore conference to be held in Fiji next month.

He calls our tax system "legalised banditry".

It's rather like being robbed at the same spot week after week. So, when you've had enough, says Newrick, you just take a different route.

That seems to be just what is happening.

Tax evasion and tax avoidance are both on the increase. And in their efforts to minimise what they lose to taxes, New Zealanders are flocking to tax consultants in greater numbers than ever.

Those in the business say it's booming, not only because the tax law is so complex that the general class of taxpayer doesn't understand it, but because he resents paying the amount of tax he does.

Most businessmen can — and do — claim artificially-induced tax deductions. But there is little the average wage and salary earner can do. All the schemes in books seem to apply to other people; tax avoidance techniques seem only to be available to the very rich.

- Join a club — one that's expensive and exclusive, and which your best clients would like. Deduct the annual dues and dining expenses.
- Repair things thoroughly. Repairs are deductible — so don't stint. A new engine for your aging Daimler is a far better tax deal than a new car since you can't claim a full deduction on a new one costing more than $7000.
- Entertain thoroughly. But always include a client or two and deduct the expenses.

There are some basic steps that many can take to minimise tax — for instance, form a family trust, or put any income-producing investments in your spouse's name; aim for salary increases to be in a non-cash form. But not too much else.

The self-employed can do much more by way of tax avoidance or straight evasion — but it's a lot more risky.

The chances of getting caught, let alone prosecuted for evasion, under our self-assessment system are still minor, however, when considered in terms of possible tax savings. (Of a mere 527 tax evaders caught in the 1978 tax year, only 61 were prosecuted.)

But Newrick believes New Zealanders are not as well-versed in sophisticated tax-saving techniques as they should be.

The offshore congress is aimed at educating those interested in the taxation area in more effective methods.

The conference will look at alternative tax systems, international tax planning and various practical methods of tax avoidance in New Zealand.

Topics planned for discussion include practical methods of winning a tax rebellion; tax planning for professionals; the morality of tax evasion; all about tax havens; how to turn black money into white money; how to pay one per cent income tax; tax avoidance for public companies; how to d-e-l-a-y paying taxes; how to kill a tax investigation; and an alternative system.

Billed as chief speaker is the infamous Peter Clyne, the high-profile artful dodger of taxes, who claims he hasn't paid the taxman a bean since around 1967.

"Now the commissioner's mind has snapped and he's asked me for a tax return. I wouldn't have thought he'd be so foolish," the National Times quoted Clyne last year.

In fact it's because Clyne is a prohibited immigrant from New Zealand that the conference is being held offshore.

Clyne will discuss the ways and means for New Zealand businessmen to internationalise their affairs, and no doubt some of his suggestions will tend to the outrageous.

- Try exporting. There are all sorts of incentives there — and export to your own overseas company. It could resell at a loss but you'll still be ahead tax-wise.
- Get into antiques. Who is to know whether the antiques which fill your house belong to you personally or to your shop. Buy from your shop, sell to your shop, even write it all down — who can value antiques? This form of tax avoidance-evasion is aesthetically pleasing.

Clyne will be accompanied by two New Zealand speakers, property millionaire Bob Jones — author of Jones on Property and New Zealand, The Way I Want It, and, lending credence to what some businessmen are calling a publicity stunt, well-known Auckland barrister Bruce Grierson, who will concentrate on alternative tax systems.

Asked what he expects the congress to achieve, Grierson said, "A greater awareness of the use of new systems of legal tax avoidance, particularly (thanks to Clyne) overseas bases as a means of avoiding taxes in the country of residence.

"Secondly, because of the nature of those attending the conference, it will enable discussion of alternative systems to occur among the people best informed to know if they will work."

He suggested the rest would be up to the politicians if they wished to take it further.

Grierson describes the New Zealand taxation system as "foolish, demotivating and totally, economically destructive". Asked if the congress is likely to mark the beginning of a tax revolt here, he said, "No . . . because there already is one".

People have been fooling the tax system in countless ways for years, he said, and the general principle is the same all the way.

Reeling off 25 ways to reduce a person's taxation bill (and there are plenty of others) — Grierson pointed out, they are all legal.

"It's been happening for years," he said. "People have been ordering their affairs so as to pay as little tax as possible."

Grierson and Newrick believe the congress, as well as looking at deficiencies in the tax system, will provide a focal point for the expression of sophisticated tax avoidance schemes by those already in the business as professional advisors.

Under our present system Grierson said, the tax burden is borne to a crippling extent by the wage earner, to a lesser extent by the fee earner — the professional — and to an unfairly low extent, by the businessman.

"Government policy has only accentuated this gross social inequity by the invention — for the benefit of big business — of export incentives, special depreciation allowances of various kinds and the absence of any real effective system of tax on the sale of capital assets. So the rich get richer, and the poor get poorer".

- Run a business from home. Then there can be no question but that when you leave your home to do some work the travelling costs are deductible; but if you leave your home to go to an established place of business, those costs aren't deductible. Then there are other related deductions which can be apportioned, for instance part of rates, insurance, repairs, part interest on the mortgage, lighting, heating, phone rental and even depreciation on part of the dining table (which of course, you use as a desk).

Newrick notes the irony that to save on tax, the businessman resorts to wasting money on incentive schemes, thus reducing his "profits".

It all boils down to the ability of one man not to pay his taxes because of his ingenuity.

Grierson advocates, instead, a standard tax. "A tax of 8-10 per cent, levied evenly on, for example, wages, dividends, rents, royalties, fees, all sales at every level, and all services". In other words, he sees a system which taxes all transactions, one which has, by definition, the widest tax base.

But the tax stays at a low percentile rate and is applied at every selling level, not just retail.

A tax on all receivables — sales and services — would make society at large fairly pay the social cost of its welfare systems, he rationalises.

"At the moment the social load of taxation is carried by the productive sector and not the domestic sector. And inside the productive sector, it is being carried disproportionately — primarily by the wage earners, and secondly by the fee earners".

Grierson will talk about the Swiss taxation system which he says is a more effective revenue collecting tool. He believes a standard taxation system in New Zealand and an abolition of income tax might even overcome our balance-of-payments problem, since there would not be the purpose to take profits out of the country.

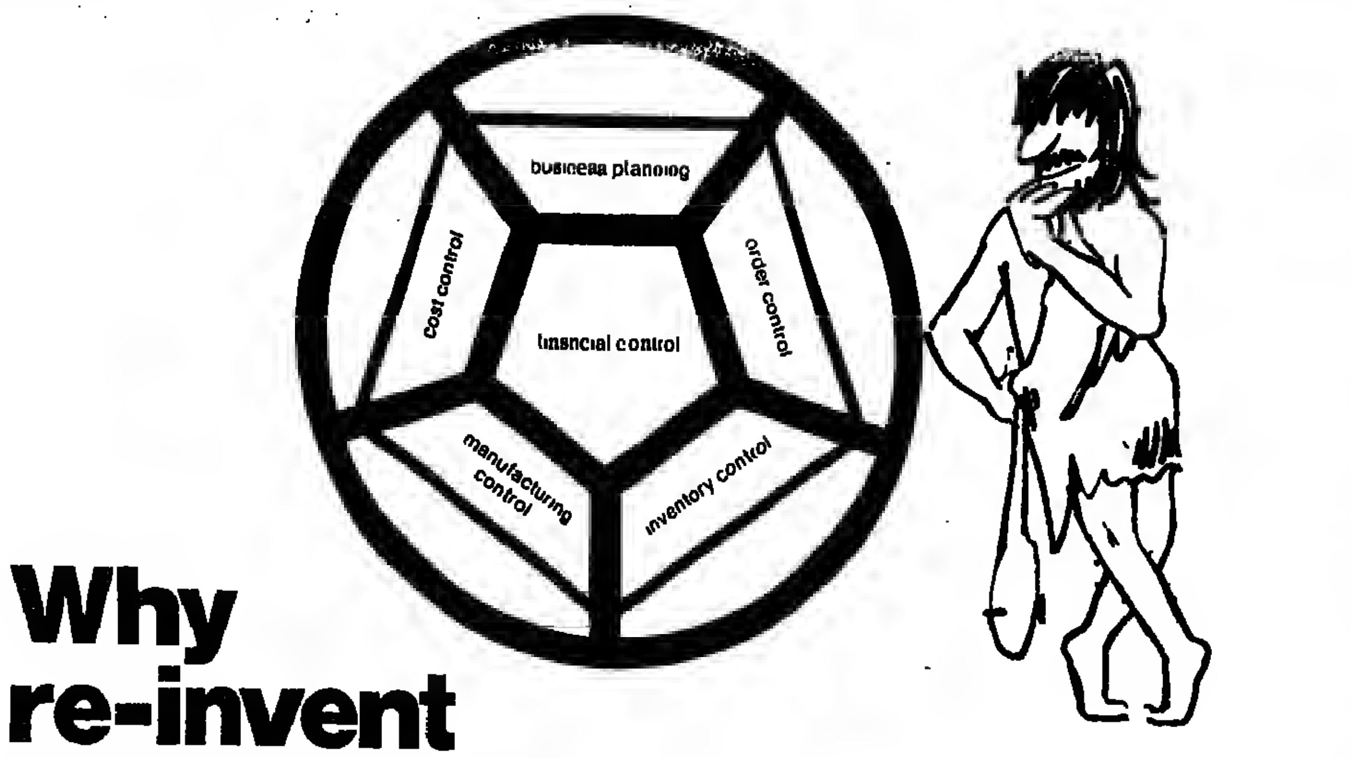
Whether or not the conference is being taken seriously, it is likely to attract a great deal of interest.

The question which remains to be answered is, will the cost of going to the conference (ranging from $595 - $895) be tax-deductible?

Grierson believes it has to be. If people are engaged in the business of advising on tax matters, the conference must be viewed as a self-improvement seminar.

He regards this as an irony of the tax system; it's the duty of those in that business to advise their clients of the best methods of avoiding tax. But the last word on that will no doubt come from the commissioner himself.

PETER CLYNE . . . "I have a total lack of scruple".



Fare scramble forces Fiji airline to mark time

by David Roble

WHILE Air New Zealand executives are troubled by the cut-rate fare scramble in Oceania they should spare a thought for their colleagues in Air Pacific.

The era of cheaper flights from North America has forced the Fiji-based airline to mark time with many development plans for the region, just when trends had looked particularly favourable.

Air Pacific, a relatively small airline but with the most extensive network of routes across the South Pacific, made its biggest ever profit of $725,000 last year. And the recent bilateral air agreement with New Zealand has opened the door to a fairer share on the sector carrying its heaviest flow of overseas traffic.

But the cut-throat fare jousting over the Pacific run to the western United States by the larger carriers has given the airline an unwelcome jolt.

"Eighteen months ago we were excited about the idea of flying to the United States to boost our share of the tourist market," said Air Pacific general manager Captain Alan Bodger. "But now the aviation upheaval has changed things for us as a small airline. We haven't any interest in getting into a venture where we could lose our shirt.

"The new fares have certainly opened the skies as far as the Americans are concerned — but not for us."

Captain Bodger said Air Pacific had been looking at Honolulu and the mainland states as possibilities but the difficulties posed by the new fares had ruled them out for the moment.

He is sceptical of how far the larger airlines can go in the cut-rate arena and he said that rationalisation must come soon. So his airline is biding time until the "shake-down" is over.

What other possibilities are ahead of Air Pacific then with saturation point close in several existing markets?

New Zealand offers scope for tremendous growth following the new bilateral agreement in spite of the drop in the numbers of New Zealanders visiting Fiji last year, an airline spokesperson said. There are also possibilities of developments on the Australian run, at present limited to Brisbane, and on two Island routes.

Aviation relations between Fiji and New Zealand have now warmed up considerably after becoming rather icy during the protracted bilateral disputes.

A heavy imbalance in the New Zealand-Fiji air traffic leaning, or rather lopsided in Air New Zealand's favour for some time, had angered Air Pacific and its majority shareholder, the Fijian Government.

This situation denied Air Pacific the right to fly direct between Auckland and Nandi airports and meant Air New Zealand was able to offer roughly up to 120,000 seats on the Fiji run while its small rival was limited to a meagre 23,000.

The impossible agreement, from Fiji's point of view, led to Fijian Prime Minister Ratu Sir Kamisese Mara causing a shock last year by giving 12 months' notice that he was terminating it.

A new deal was negotiated with difficulty — the final touches came last March and it went into force on April 1 — and this closed the gap to a more realistic level. A provisional formula granted Air New Zealand about 90,000 seats and Air Pacific 50,000.

Air Pacific executives expect fresh negotiations soon for next year's agreement to be even more favourable.

By August, says commercial manager Kit Naidu, his airline should be able to count on something like about a 44 per cent share of the traffic starting next April 1. Calculated from an origin destination formula yet to be agreed on, this new figure would represent a drop from the present imbalance of around 40,000 seats on offer to under 15,000 — a major coup for the airline.

"Our problem may well be providing capacity," admits Captain Bodger but adds the airline is confident of meeting demand.

Having expected the new bilateral negotiations to be wrapped up much earlier than they were, Air Pacific expanded its fleet by purchasing a BAC 1-11-400 from a small West German airline and the plane arrived last June.

The plane has, however, only recently gone into reasonably full use with Air Pacific, introducing three new direct services from Auckland to Nandi in May, giving the airline a total of nine weekly services from New Zealand.

The bilateral deal also gave Air Pacific the right to fly direct to a second point in New Zealand — a choice of Christchurch or Wellington — with Air New Zealand given the option of introducing a direct service to Suva's Nausori airport.

It is difficult to see Air Pacific being able to take advantage of this at the moment because the airline's BAC 1-11s have not got the extra range needed to reach Christchurch or Wellington.

And there are no plans for buying larger aircraft for two reasons: they could not be readily used at airports such as Nausori, Apia, Honiara and Fu'amotu (Tonga); and the airline is convinced the wide-bodied jets will rapidly become aircraft of the past as their high fuel costs price themselves out of the market.

Air Pacific's present fleet of three BAC 1-11s (two 475s and the older 400), two HS748s and two Trislanders is being boosted by two Brazilian-built 19-seater Bandeirantes for new major domestic routes being introduced.

"We are constantly looking for new types of aircraft for our regional network," said Captain Bodger.

Aircraft size is also a problem for plans to extending services to Australia. Air Pacific have generally found Qantas, however, a sympathetic airline to deal with. This is mainly because the Australian carrier does not have the competitive interests in the South Pacific that Air New Zealand has, and this relationship could help to provide a solution.

"We're looking at Melbourne and Sydney and once again what is becoming very clear is that the conventional jet, as I call them, the old-fashioned jets, are pricing themselves out of the market on fuel and general costs," said Captain Bodger.

Air Pacific's ambitions at the moment are on the possibility of opening Melbourne and Sydney routes by chartering part of the Qantas Boeing 747 capacity.

"We may come to an arrangement — we're still discussing it with Qantas — where we buy seats on each of these services so that we can establish an Air Pacific identity with joint service numbers," said Captain Bodger.

Another possibility is taking over the Fiji-Tahiti route after the French airline UTA pulls out in October. Commercial manager Naidu is hopeful that it would pay in spite of UTA's withdrawal.

"What bothers me here is that from what we know of the French attitude to air rights, it will not be easy to get clearance for Tahiti," said Naidu.

By pulling out, UTA will leave an imbalance heavily in Fiji's favour as Air Pacific already operates flights to Noumea and on to Brisbane.

Air Pacific is also looking at package deals, off-season low fares and other lures from Australia and New Zealand to encourage people to travel to Fiji during the so-called seasonal troughs.

"But in this part of the world, our troughs are really eight months of the year," said Captain Bodger. "After busy seasons in May and August, we get a hectic time in December-January and that's about it. The rest of the time is really our off season."

Captain Bodger is an advocate of much closer co-operation between the airlines operating in the South Pacific.

"Regionalisation is the only answer to aviation in the Pacific but politics won't permit it," he says.

An Airlines of the South Pacific Association (ASPA) has recently been set up with headquarters at Suva to try to foster co-operation and develop the idea of some form of regionalisation. Fourteen airlines are already involved, Air New Zealand and Qantas will probably become associate members.

So, in spite of the temporary stalemate left by the air "cheapies" contest, the situation for Air Pacific is not as bleak as it might be.

In fact, for an airline which began less than three decades ago as a domestic one-man, one-aircraft operator in Fiji with only $4 paid up capital, Air Pacific's development of its 12-nation network has been remarkable.

Art gallery game suffers high casualty rate

by Molly Elliott

THE Auckland Society of Arts lists 13 small private galleries in its Auckland Galleries Walk brochure, survivors in a business with a high casualty rate.

One Auckland gallery has changed hands three times in as many years; an estimated 30 city and suburban galleries have opened and closed in the last 18 months. Yet, despite the low survival rate, in 15 years, the number of private galleries has increased by about 1200 per cent. The number of artists has also risen with approximately 300 now represented in shows throughout New Zealand, a high figure for so small a country.

One of the earliest galleries, the Barry Lett, opened 14 years ago. To survive at all, much less for so long, is as much of an achievement as running the four-minute mile or playing a Chopin study.

Ask its owner, Rodney Kirk-Smith, what type of person goes into so chancy a business, and he says someone interested in art who has found a need and has something with which to fill it. Commendably altruistic but, inevitably, it all boils down to dollars and cents.

The economic situation has restricted the buying public for art and has modified its motivation, says Kirk-Smith, who sees a greater tendency to purchase for art's sake rather than for investment.

His gallery, which holds regular showings of New Zealand artists' work, draws its main support from public galleries, Government departments and large corporations like the Fletcher group, Alex Harvey Industries Ltd, Arthur Yates and Co Ltd, Todd Motors, many of which have international contacts to whom they wish to present a cultural image.

Even given this sort of patronage, how does a gallery make a living? It charges a commission (most will not divulge how much, though artists generally consider it steep) on all works sold. It may have exclusive rights to an artist's work but the Barry Lett Gallery for one, does not push this too hard since an artist must distribute his work as widely as possible.

It has a programme of fortnightly exhibitions scheduled months ahead. It concentrates on contemporary painting, sculpture and original prints.

No matter how successful their exhibitions are, all gallery owners admit that the business has never been easy. The Barry Lett boasts 60,000 visits a year, not all buyers by any means.

Do original local works represent a worthwhile investment? In their uniqueness, yes, says Kirk-Smith. They are the work of artists who identify with and create our culture. Since they are, like life, unrepeatable, they will certainly appreciate which probably accounts for excellent sales of work by Colin McCahon, Ralph Hotere, Patrick Hanley, Don Binney, Robin White, Robert Ellis.

With the market now so buoyant, such artists can paint full-time although some choose not to, gaining stimulus from other involvement like teaching which adds to their security, an advantage in their work.

Most galleries do not stick solely to exhibiting paintings. Initially, they must collect a body of work and try to live off it. Consequently, most need another source of income because New Zealand has too small a population to support a lot of galleries as such. New Vision, a long-established Auckland gallery, operates a flourishing shop with pottery, woodwork, weaving and jewellery.

By comparison, Grahame Chote's International Art Centre in Parnell, is one of the country's few wholly dealer galleries. It trades solely in early New Zealand paintings plus the work of Raymond Ching, notable for his bird paintings — and Chote owns every one of the paintings on display.

An unrepentant businessman, he studied at the Elam School of Art under artists like John Weekes. He decided to purchase a collection but found auctions the only source for the type of works he wanted.

Up till three years ago, he said, auction houses dominated this market, but no longer. It is now so difficult to buy top painters' work at auction that the occasional Goldie or Lindauer makes headlines.

Chote travelled the country buying at auction, a perilous course for the layman, he emphasises. He planned to buy rather than sell but business burgeoned to such an extent that he sold out his billboard advertising company and went into the gallery game. In a capital intensive venture, he sees himself as something of an investment broker.

When the National Gallery in Wellington turned down the chance to acquire the Petrus van der Velden Melbn collection, Chote bought it and in three days, sold $40,000 worth of pictures. At an earlier Raymond Ching exhibition, sales totalled $145,000 in 10 days. Despite the depressed economic climate, the market is booming, he said.

The New Zealand public does not go for abstract art, says Chote, despite the number of galleries specialising in contemporary work.

He has scouts all over the country for early representational works. When he hears of a likely painting, he asks for a polaroid of it and then decides whether to buy.

Part of our heritage, the top 40 New Zealand 19th-century and early 20th-century painters, of the order of Goldie and Hoyte, have a high market value. The cost of their work has moved beyond antique dealers' resources. For the $5000 — at least — paid for one of their canvases, an antique dealer can buy a lot of bits and pieces, said Chote.

Selling is no problem for him, buying is. It has taken 10 years to build up his stock. He always has about $1 million worth on display.

Though all types of people buy, geographically his Auckland market stretches from Parnell to St Heliers — where the money is. Besides

ART SHOP

selling to business houses, Chote has also made sales to the United States.

He handles only New Zealand works because nothing else really sells, he maintains. The Kiwi likes New Zealand paintings.

In the gallery business, you seldom find a person with both an aesthetic sense and business acumen. Indeed, the little galleries are usually not only under-capitalised but even non-capitalised. They tend to concentrate in low-rent areas and on upper floors that would bring tears to the eyes of a fire chief. Chote insists on a visible ground-floor display similar to that of London's small private galleries. He puts his big Monday morning business down to this factor.

Nevertheless, one small gallery seems set for greater things. The Peter Webb Gallery will shortly move from a clutch of upstairs rooms like a nest of warped boxes to the former mezzanine T & G insurance office.

In fact, the market looks so promising that the gallery's director, Don Wood, who had his own now defunct Ikon Gallery back in the 1960s, has returned to the business.

Basically, he says, you must love the business and not regard it wholly as a commercial venture. Some certainly go into it for the money, but while this attitude may pay off with historical works, it does not apply to contemporary painting.

Those galleries that have closed have assessed the market incorrectly and-or have not had a good stable of painters, nor does their intuition seem to have been hard at work. The market recently felt the downturn in the economy. Buyers turned to 19th-century painters but prospects have picked up with people still collecting contemporary work.

This gallery too, has its sidelines: silver, jewellery, antiques; yet, it still sees itself as a dealer rather than an exhibitor. Its stable numbers 20-25 painters, it publishes prints and arranges travelling shows.

Its clients also range from Government departments through public galleries and other dealers to private collectors.

In the mid-1960s galleries offered no living said Wood, but this position has changed. Nevertheless, this labour-intensive business has always been difficult. Not only do you deal with artists and their idiosyncrasies, but also you have a highly personal relationship with your clients. Unless you believe in the artists you represent, you can't sell to patrons.

You must keep up with the play, for art, like fashion, always presents something new. The gallery owner must be sufficiently discerning to pick winners before they become winners, must, like a jetliner, maintain great momentum or stall and crash.

Not only is the public primarily interested in New Zealand work, but Aucklanders prefer Auckland artists, Christchurch buyers, Christchurch painters. At the same time, New Zealanders are no longer artistically naive, no longer united in the true democracy of ignorance.

Original work does not always appreciate, says Wood, but the collector who buys well will certainly not make a loss. Some works, however, do appreciate and a McCahon that might have sold for $200 in the 1960s would now fetch $8000-$10,000.

Yet, buying as a hedge against inflation is, in Wood's opinion, the wrong reason. If a picture doesn't move you, he says, forget it.

Manufacturer wants balance

I WISH to comment on your two articles in the National Business Review of June 6.

Firstly, relating to the article on the Federation of Labour's support to a Labourer's Union call for a ban on 2,4,5-T. In my opinion I find it difficult to understand what advantage can be obtained by a public enquiry as regards the facts of the case and the decisions made, while fully realizing it would allow various factions of the community to express their opinions.

However, my main reason for writing is concerning other points raised in the text which, although apparently of minor importance when viewed alone, do give an unbalanced view to the article.

The first sentence "Workers who apply 2,4,5-T . . . " is a very sweeping statement and in my view if it was qualified to read "Some workers . . ." would be much more in line with the situation. In fact we have been in close contact with contract applicators and other users for many years and would suggest that it is a very, very small vocal minority not widely experienced in the use of pesticides which have expressed their concern.

You will recall in our recent submission to the Select Committee on the Pesticides Bill, the company has recommended that applicators have representation on the board. However, as we all realise, every interested group cannot be directly represented on a board of this nature. All the public are represented by the Health Department on this board although I am sure some people may feel their best interests are not always being served.

The question of "dangerous use" of a product by a waterway has been misinterpreted by the workman. As with practically all herbicides except those used for weed control in waterways, there is a label statement cautioning against the contamination of waterways, drinking water, etc. This is common, good handling procedure, like washing hands before eating your meal. The main hazard concerned in the contamination of waterways with 2,4,5-T is the use of the water for irrigating sensitive crops and causing damage.

When talking about "trendy environmentalists" Truth reporters may not be classed under this banner but my experience with this publication would indicate that whatever the reasons for the type of non factual, non researched, emotional trivia that appears, the end effect is the same. We live in a world of criticism but let this be constructive, balanced and fair.

Referring to the article concerning the proposed amendments to the Vineyards regulations, we take strong exception to the statement "The manufacturers (principally Ivon Watkins-Dow) naturally favour a method which uses much more of their product than ground spraying. Civil aviators hold similar views". If one refers to the labels of various products used for broadcast application of say thistles and brushweeds, this statement must be considered false. In the case of thistle control the rates of application are similar whether it be by air or ground application. Should the case arise that there were greatly increased numbers of ground spray contractors and they could get over all the hill country, the amount of herbicide used from the ground would be greater than from the air, due to the fact that owing to the relatively slow speed of application, greatly increased rates of application would be needed to control the more mature plants.

In the case of herbicides for the control of brushweeds such as gorse, it is a well known fact that when treating growth of over 1.5 metres high, the amount of chemical applied is much greater with gun application than when aerially applied.

There are a number of other minor matters on which I will not comment, but considering the balanced article which you prepared on 2,4,5-T last year we were disappointed in some of the opinions expressed in this issue.

R W Moffat
Research Manager
Ivon Watkins-Dow Limited

LETTERS

Energy plot thickens

IN A recent letter to NBR I suggested that criticism of the Government's energy policy might be premature because the hoped for "grand design" for energy will be an integral part of any re-shaped economic structure and both the 'grand design' and new structure are still some way from realisation.

The first step however, despite your correspondent Mr D J Boswell, clearly was the 60 per cent bulk power increase. The magnitude of the increase compared with the earlier proposed 5 per cent simply proves the difference between a routine measure and a structural one.

That the Prime Minister in explaining the increase made no reference to a "grand design" for energy does not mean that such a thing is non-existent, it probably means the PM prefers to express himself more simply. In any case it is well known that most governments tend to keep their long term options undisclosed as far as possible.

In his most recent letter Mr Boswell suggests that electricity has become a political pawn. However, other commentators have observed that if the Government had not responded to public concern and acted to review the excessive power requirement predictions of the last decade, the present energy problem would have been even more complex and unwieldy.

The Government has been trying to repair or restructure an economy which has suffered damage in many areas not least in electricity. The freezing of the tariff by Labour has had repercussions from which New Zealand is still recovering. One element in the restructuring is the move towards progressively providing more capital for future generation from tariffs.

Mr Boswell's presumably frivolous suggestion that the Commission of the Future should look after electricity forecasting may in fact have some merit. The Commission could hardly do worse than the official Review Committee.

Mr Boswell's remarks seem to show a sense of grievance on the part of the electric supply authorities who feel they should have been consulted by the Government before the 60 per cent increase was announced.

One hopes that when more of the energy policy and restructured economy are revealed he will be prepared to take a wider view.

John Laing
Auckland

Labour brand spreads rights

I WAS tickled pink that my problems as chairman of the Primary Producers Sunday meeting preceding the Labour Party's conference rated a mention in your excellent journal. A word or two of truth in providing the interesting full story is now called for.

Firstly, I am not a maverick in the Labour Party as your story claimed. A maverick is an unbranded calf or a masterless person. For many years the Labour Party has been my master and I have been proud to wear its brand. During this time I have stood by and supported party policy in its fullest entirety except for one notable occasion. I believe I can claim honestly that my politics have always surrounded issues and principles, never personalities. Funnily you can in politics really ruffle feathers just sticking to issues.

On wool acquisition, my efforts in averting the same being inflicted on wool growers was consistent with the published Labour Party 1972 manifesto.

The policy and legislation to enact compulsory acquisition belonged to the National Party. Some in the Labour Party became dazzled with the prospects.

The National Party showed themselves still wedded to this extreme socialistic concept in 1977 when as a government they included the compulsory acquisition provisions in a new Wool Board Bill. The fact that the same gentlemen voted against this provision in 1973-74 escaped their consciences. Many interesting angles about the antics of politicians can be found in the story of compulsory acquisition. Maybe someone will write the story, the material is available.

To get back to the "raising of eyebrows" at the Labour Party conference over my report to that body regarding what took place at the Primary Producer gathering. It's also quite a good story.

The report in question did in its original form state that there was "general agreement" on four points I raised concerning the freezing industry. A delegate and friend brought to my attention the words "general agreement" might not be appropriate. I then amended my copy for presentation to conference replacing "general agreement" with "views were expressed on the following four points". These points were listed in your article.

A number of delegates concerned with the Meat Workers' Union expressed themselves jointly to me about employees being responsible for the cost of their union officials. My views evidently were based on old fashioned union principles. However, they were annoyed about the words "general agreement" on this point. I pointed out it was my intention to amend this when I presented the report to conference. After all the report merely stated the topics discussed at the Sunday meeting. No resolutions were passed.

There was no meeting of primary producers convened during conference as suggested in the "Without Word Of A Lie" nor could there be.

Your article does correctly state that the conference being mesmerised with the constitution meant the Sunday meeting report was not debated. A pity this for the four points were good debating matters and obviously some delegates had strong views opposed to my reasoning.

The four points I raised on the freezing industry were all pertinent to its long term welfare and the continuing means to provide employment for thousands. Principles of placing responsibility belonging to ownership, management and employee organisations were contained in the four points.

Unfortunately for New Zealand the National Government's long term policies of being anti market oriented have seen the responsibility being transferred elsewhere including the State.

Incidentally the Labour Government's policy in 1975 was for a "market oriented" farming industry. The 1975 National Party policy in response to Federated Farmers was for the State to provide sufficiency of income to farmers. In 1978 the Labour Party policy was still for the market oriented principle.

Methinks the National Party M Ps. including Mr I. McLean are rather shy about their full blooded socialism.

Aubrey Begg
Invercargill

Wool uniformity clause deters innovators

by Warren Berryman

AUCKLAND wool company Robert Ferrier Ltd has designed and built a high-density wool press that can double the amount of wool packed into a 20ft container.

Ferriers pioneered high-density packing in this country.

The new press is the invention of managing-director Bob Ferrier and plant engineer Hank Deneknmp.

Copies of the press will be manufactured by a Ferrier subsidiary Ash Engineering Co Ltd, and marketed to local and overseas wool scourers. The price ($180,000) is comparable with the cost of imported high-density presses.

Dense baling saves shipping space and could mean considerable savings in freight for wool exporters and higher wool prices for the farmer.

Ferrier's $160,000 340-tonne press now in operation at Wiri, packs 315 kilos of scoured wool or 375 kilos of greasy wool into 1 bale slightly smaller than a conventional bale.

Ferriers can get 15 tonnes of dense-baled scoured wool or 18 tonnes of dense-baled greasy wool into a 20ft container. With conventional methods only about 7.8 tonnes of scoured or 13 tonnes of greasy wool can be packed into the same 20ft container.

The press eliminates the need for high-density dumping – a system by which two conventional bales are compressed and bound together as one.

The high-density press uses only one conventional wool pack versus two for double dumping.

A further saving is made in steel strapping. Ferriers' high-density bales use only five straps, versus eight for other high-density bales.

Huge savings have been achieved by our Australian competitors who were able to negotiate freight rates based on volume (a container rate) rather than on weight.

New Zealand wool exporters have also achieved savings with box rate freight deals with non-conference shipping lines.

The shipping conferences have been charging freight rates based on weight providing no incentive for space saving dense-baling.

The Wool Board has the power to dictate to all wool exporters which shipping lines they may or may not use. It has used this power to prohibit shipping on non-conference carriers and thereby curtailed the incentive to dense-bale.

Wool exporters sending their wool to countries like Iran, where no conference exists, have been free from Wool Board restrictions. They have negotiated attractive box rates with up to 40 per cent reductions in freight rates.

Australian wool exporters, through dense baling, have been getting freight rates 25 per cent less than New Zealand exporters, even though Australian wool travels further and often goes on the same ship with New Zealand wool to the United States.

DENSE BALER . . . 340-tonne press straps wool down to size.

Last year the Wool Board negotiated a small dense baling rebate incentive payment with the conference.

Ironically this incentive is not available to the dense-baling pioneers at Ferriers.

Ferriers is a Wool Board-designated central wool facility (CWF) — the only independent CWF in New Zealand. The others are owned by the "wool club" (Dalgetys, Wrightson NMA, the Wool Board, and two conference shipping lines).

To get the concession, Ferriers would have to give up its CWF status to become a source packer.

As the only independent CWF, Ferriers' position is tenuous. Auckland is the only city with two CWFs: Ferriers and the "in club" Wiri Woolbrokers. Ferriers' status is granted by the Wool Board for an 18-month period.

If Ferriers started pushing more wool through its high-density press and dumping less, the Wool Board might designate it a source packer and withdraw its CWF status.

Ferriers is dense baling for markets where the Wool Board and the shipping conferences have least control and where the greatest savings can be made on freight rates through high density packing — Australia and Iran.

Wool Board transport manager David Young has explained why the concessions would not apply as each dense press was installed: "For wool buyers it is important there should be uniform charges and conditions around the country. If it was more expensive to ship wool from one port or one woolstore, they would have to make allowance in bidding at auction. That would create many difficulties and not be to the growers' advantage."

The Wool Board's uniformity criterion prevents an innovator, like Ferriers, from getting a leg up on "in club" competitors who have yet to catch up in dense baling.

The Wool Board has a financial interest common to that of Dalgetys, Wrightson NMA, and the two conference shipping lines through its shared investments in the CWFs — excluding Ferriers.

The pattern of wool flow has changed dramatically over the past years and the advent of high-density baling promises further changes which could render the CWFs redundant.

Wool flowed from farmer to broker to scourer and back to the broker dumpers (mostly controlled by the CWFs), then on to the ship.

Mostly because of New Zealand's low scouring costs, a greater proportion of wool is being scoured here and less exported in its greasy state than previously.

Independent wool scourers, such as Lichtensteins, Ferriers, and Mair & Company, are doing their own dumping and baling.

The future wool flow could well be from farmer to scourer where the wool is scoured, dumped or baled and loaded into containers at one location — thus bypassing the CWFs and eliminating unnecessary extra handling and freight charges.

Evidence of this trend is in the degree to which independent source packers are investing in dumping and baling equipment.

This trend appears to be accelerating in spite of the stumbling blocks and disincentives put in the independent's way by the Wool Board and the conference shipping lines.

Nickel stocks dwindle as strike drags on

by Belinda Gillespie

INDUSTRIAL strife in Canada is hitting the New Zealand electroplating industry.

Nickel, used in electroplating and in making stainless steel equipment for the dairy industry and large-scale food-handling, is in short supply. A strike at Inco Ltd, the giant Canadian manufacturer of electrolytic nickel, has been dragging on since last October. It threatens to continue indefinitely.

Although the Canadian stoppage has meant nil production for over nine months, there are still stocks of nickel in New Zealand. But suppliers, including A G Healings Ltd and Oxy Metal Industries Ltd, are receiving only 70 per cent of last year's allocation of nickel.

New Zealand stocks are held by the Christchurch firm Dickinson's Metal Sales Ltd, but are owned by Inco, which has reduced allocations in order to make stocks last.

Although there is enough nickel in New Zealand to last several months yet, the stoppage in Canada would need to continue only a few weeks more for serious effects to be felt on New Zealand industry, as there is a big lag between production and delivery. The price has already risen in response to the shortage from $4.58 to $6.58 a kilogram. Similar industrial action caused a shortage several years ago, when prices went as high as $13 a kilogram.

A spokesman from UEB's electroplating branch said the industry is not yet feeling the pinch, though supplies have been reduced. He said electroplaters carry only small stocks of nickel, and the situation could get more serious as they start eating into their small reserves. There is no substitute for nickel in the electroplating industry, where it represents about 20 per cent of UEB's yearly output.

While staff at Inco's Ontario facilities are migrating to other mining projects for work, the manufacturers appear in no immediate hurry to end the stoppage.

The production hold-up has ended the glut in the nickel industry which has kept it in a depressed state for several years. Inco controls more than a third of the world's production capacity and a large portion of its stocks. Worldwide, nickel demand is expected to grow 4 per cent a year, with stainless steel production as one of its major users.